DOCUMENT RESUME

ED 278 862 CE 046 425

TITLE	Farm and Family Management Program.
INSTITUTION	Iowa State Univ. of Science and Technology, Ames. Cooperative Extension Service.
SPONS AGENCY	Iowa State Dept. of Public Instruction, Des Moines. Div. of Career Education.
PUB DATE	Dec 86
NOTE	197p.
PUB TYPE	Guides - Classroom Use - Guides (For Teachers) (052)
EDRS PRICE	MF01/PC08 Plus Postage.
DESCRIPTORS	Accounting; *Agricultural Education; Behavioral Objectives; Course Descriptions; *Farm Accounts; *Farm Management; Home Economics; *Home Management; Learning Activities; *Money Management; Recordkeeping; Teaching Guides; *Vocational Education

ABSTRACT

This teacher's guide contains four units for the farm and family management program, a three-year educational program through which farm families have the opportunity to participate in group and individualized instruction. The program is intended to help provide basic farm and home management information to farm families to meet the changes of the 1980s. Topics of the four units are inventory of farm and family financial resources, farm accounting systems, family recordkeeping, and organizing farm and family records. Each unit is composed of four parts: participants' text (objectives, table of contents, and information), participants' worksheets (activities designed to assist participants in gaining the skills of farm and family management), teaching guide (objectives, teaching outline, suggested optional and on-farm activities, evaluation, and listing of support materials), and transparency masters. (YLB)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

IA 8613306

FCS-86-04-68

R+D-86-01
Crawford, Harold R.
Iowa St. U.

ED278862

FARM AND FAMILY MANAGEMENT PROGRAM

developed by

Iowa State University Extension Service

and

Bureau of Career Education
State of Iowa Department of Education

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☑ This document has been reproduced as received from the person or organization originating it

☐ Minor changes have been made to improve reproduction quality

- Points of view or opinions stated in this document do not necessarily represent official OERI position or policy

CE046425

ALL RIGHTS RESERVED. REPRODUCTION IN ANY FORM PROHIBITED WITHOUT PERMISSION

This notebook of instructional materials has been prepared through a cooperative agreement between the Iowa State University Extension Service and the Department of Education, State of Iowa. The materials are published for use by Extension personnel through the Communications/Information Service, 103 Morrill Hall, Iowa State University (515-294-9915), Ames, Iowa 50011. Materials used by personnel represented through the Department of Education are being published by the Iowa Curriculum Assistance System, N008 Lagomarcino Hall, Iowa State University (515-294-8919).

Cooperative Extension Service, Iowa State University of Science and Technology and the United States Department of Agriculture cooperating. Robert L. Crom, director, Ames, Iowa. Distributed in furtherance of the Acts of Congress of May 8 and June 30, 1914.

⚖ **and justice for all**
The Iowa Cooperative Extension Service's programs and policies are consistent with pertinent federal and state laws and regulations on non-discrimination regarding race, color, national origin, religion, sex, age, and handicap.

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

Pm-1284a | December 1986

BEST COPY AVAILABLE

FARM AND FAMILY MANAGEMENT PROGRAM

Dynamic changes have taken place during the 1980s that have impacted the farm, home and family. Families have been called upon to make key farm financial management decisions, to integrate farm and family spending decisions, to set goals and to establish priorities for their farm business and their personal lives. The Farm and Family Management Program is an educational program that helps provide basic farm and home management information to farm families to meet these changes.

It is clear that management is a key component of survival for today's farm families. The Farm and Family Management Program is an organized yet flexible educational program through which farm families have the opportunity to participate in group and individualized instruction over a three-year period. Emphasis is placed on family members jointly working through farm and family decisions.

The Farm and Family Management Program is being taught under the leadership of the Iowa Cooperative Extension Service in a cooperative effort with vocational agriculture and community college staff. Group meetings and individual contacts throughout the program will help build a framework for making management decisions.

The objectives of the Farm and Family Management Program are to:

1. complete and monitor a farm and family cash flow projection
2. complete a year-end financial statement
3. complete an income statement
4. complete an enterprise analysis
5. establish a bookkeeping system for the family and the farm
6. define farm and family goals, establish priorities
7. improve communication skills and provide leadership in the community
8. incorporate tax and risk management and estate planning into financial projections
9. improve decision-making skills

Project Funding

Funding for the planning, preparation and basic copy of the Farm and Family Management Program instructional materials has been provided by the Department of Education, Des Moines, Iowa and the Iowa State University Extension Service, Ames, Iowa.

Advisory Committees

ISU Extension Advisory Committee

Harold Crawford, Assistant Dean for Academic Programs, College of Agriculture
Jerry DeWitt, Associate Director, Cooperative Extension Service
Bill Bogue, Farm and Family Management Program Project Director, Cooperative Extension Service
Kathleen Beery, Former Assistant State Leader, Home Economics Extension
William Edwards, Extension Economist, Economics Department
Elizabeth Elliott, Associate Dean and State Leader, Home Economics Extension
Cynthia Needles Fletcher, Extension Specialist, Family Environment
Gene Futrell, Extension Economist, Economics Department
Don Hofstrand, Extension Farm Management Specialist, North Central Iowa Extension Area
Palmer Holden, Extension Livestock Specialist, Animal Science Department
Kristi Puetz, Extension Consumer and Management Specialist, North Central Iowa Extension Area
Helen Sorensen, Extension Consumer and Management Specialist, Northeast Iowa Extension Area
Gary Vogt, Extension Farm Management Specialist, Northwest Iowa Extension Area
Regis Voss, Extension Agronomist, Agronomy Department

Department of Education Advisory Committee

Gerald Lamers, Department of Education
Rudy Engstrom, Vocational Agriculture Instructor, Lake City Community School
Bruce Moore, Vocational Agriculture Instructor, Iowa Falls Community School
Joe White, Agriculture Instructor, Ellsworth Community College
Roland McCubbin, Iowa Department of Agriculture
William Edwards, Extension Economist, Economics Department
Don Hofstrand, Extension Farm Management Specialist, North Central Iowa Extension Area

Special Acknowledgement

Appreciation is expressed to the following individuals for their contribution in writing the instructional materials:

Mary de Baca, Family Environment
Galen Herr, Farm Management
Keith Rheault, Methods of Teaching
Lyle Stewart, Microcomputer Education
Steve Vogelzang, Farm Business Accounting
Mark Zidon, Methods of Teaching

FARM AND FAMILY MANAGEMENT PROGRAM

Organization

Introduction

It should be recognized that the organization of this program will be the key step to success and will have bearing upon the program for its entirety which is projected to be a three-year period. It is anticipated there will be differences among programs in the way they are organized, yet, the basic structure should be similar in all programs. Leadership, creativity, cooperation, and commitment by those responsible for program development and implementation will be major factors for program success.

Program Structure

Central Committee

A central committee should be organized that consists of the county extension director as chairperson and the vocational agriculture teachers within the county plus a representative from the agriculture programs of the appropriate area community college.It is hoped that the Extension agritulturist or home economist (who is not the CED) will also be a member of the Central Committee. Under the leadership of the extension director they should mutually decide on whether or not to have a Farm and Family Management Program for their county. They should also be responsible for the program organization, development, implementation and teaching.

Coordinating Committee

It is suggested that the central committee expand their group to include farm and family representatives, both men and women, to make up what would be called a coordinating committee for program operation. The number of representatives would be a minimum of three and should be determined by selecting one representative for each five participants they desire to enroll in the program.

The farm and family representatives on the coordinating committee should have input into determining program composition and should assist in recruiting participants (five families per coordinating committee representative including self). In addition these representatives could assist with program arrangements such as information dissemination, travel for tours and small group organization.

Program Composition

Introduction

The Farm and Family Management Program is designed to be flexible, yet, include enough commonality through the use of the instructional materials so that all programs may fulfill similar objectives.

Group Instruction (necessary)

It is anticipated that the core of the Farm and Family Management Program will be organized instruction supplemented with additional activities. The coordinating committee will need to give consideration to the workload schedule of farm families when scheduling group instruction. It is expected that all programs will include at least four to six group instructional sessions annually. The schedule and number of instructional sessions as well as the order of the topics and the amount of materials used for instruction will be determined by the coordinating committee.

Individual Instruction (necessary)

A major component, and a rather time-consuming activity, will be to work with program families on an individualized basis as a follow-up of the group instruction. These contacts will need to be purposeful, made as frequently as is possible and scheduled throughout the year. The working arrangement for who will make the individualized instructional visits will need to be determined by the central committee for the program.

Social Activities (optional)

Social activities are not essential for the instructional part of the program, yet, may be beneficial to build esprit de corps among program participants. Such activities as a summer family picnic, a potluck dinner in the fall, or dinner out during the winter are ideas for this dimension of the program.

Small Group Activities (optional)

For those who desire an additional dimension, the possible organization of subsidiary groups may be beneficial. Small groups may center around enterprise record keeping, crop scouting, microcomputer education, or other areas of farm or family management.

Tours (optional)

Activities such as group tours or trips may enhance the program. Well planned activities will promote program cohesiveness and learning. In all probability these may develop and mature with time but would not be a part of initial program development.

Microcomputer Education (optional)

In the event the group desires to learn about and use the microcomputer in their farm and family management program, arrangements may be made for instruction from Iowa State University or the area community colleges. Some groups may want to incorporate the microcomputer for farm and family record keeping and analysis as well as problem solving and decision making.

Area-State Activity

As programs develop throughout the state, seminars may be planned at the area and/or state levels. The primary purpose of these activities would be for additional instruction (possibly specialized) and provide program direction as well as participant motivation.

Organization of the Teacher's Guide

The Farm and Family Management Program is divided into units which are important to developing a sound framework for farm and family management decisions. The units do not necessarily need to be taught in the order they are placed in this notebook. The first eight units being developed include:

1. Inventory of Farm and Family Financial Resources
2. Farm Accounting Systems
3. Family Record Keeping
4. Organizing Farm and Family Records
5. Farm and Family Goals
6. Farm and Family Short-term Financial Planning
7. Microcomputer Applications to Farm and Family Management
8. Year-end Record Closing

Four additional units will be developed which will cover topics such as enterprise records, marketing, family decision-making, tax management, and estate planning.

The Teacher's Guide

Each unit of the Farm and Family Teacher's Guide is composed of four parts:

1. **PARTICIPANTS' TEXT.** Printed on white paper, it is numbered with unit number and consecutive page numbers through the worksheets.
2. **PARTICIPANTS' WORKSHEETS.** Printed on light yellow paper, the worksheets each have a consecutive unit exercise number in the upper right corner and a page number at the bottom sequenced from the participants' text. (EX 1-1 is the first exercise of unit one and appears on page 1-15.)
3. **TEACHING GUIDE.** Printed on light brown paper, each page is identified with TG (teaching guide), unit and page number.
4. **TRANSPARENCY MASTERS.** Printed on white paper for easy reproduction, each is identified as TM with the unit and transparency master number in the upper right corner.

The participants' text is a reference to provide information to the participants as well as the instructor. It contains needed information for meeting discussion.

The participants' worksheets are activities designed to assist the participants in gaining the skills of farm and family management discussed in each unit. They are intended to be completed during the meeting and should also serve as a basis for discussion.

The teaching guide is a brief outline of suggested activities to accomplish the objectives listed at the beginning of the unit. The activities included are intended to promote learning of skills as well as stimulate discussion. Instructors should not feel limited to these activities nor should they feel obligated to complete all activities. The lesson should, however, address all of the objectives listed for the unit.

The transparency masters are intended to give visual support to the information being presented. Transparencies can also be used to promote discussion.

To successfully accomplish the objectives of the topic areas it is suggested that a variety of teaching methods be used including group discussion, individual work assignments, small group assignments, follow-up group discussion, farm visitations, and individual consultation by telephone. Methods which most actively involve participants are most likely to accomplish the objectives. Individualized sessions with families may be the best means to determine if participants are making progress.

Both the participants and the instructor have responsibilities for each lesson. The participants' responsibilities are to: (1) read the text prior to attending the meeting, (2) participate in discussion at the meeting, (3) complete assigned activities, and (4) complete on-farm activities. While the instructor cannot dictate the participants' involvement, he/she can create an atmosphere that promotes completion of these responsibilities by the participants.

To prepare, the instructor must: (1) read the participants' text, (2) read through the teaching guide, (3) adapt the lesson to his/her own teaching needs and style, (4) prepare transparencies and materials, and (5) prepare classroom facilities. During the lesson the instructor's responsibilities are to: (1) present information, (2) direct the classroom discussion, (3) promote involvement in discussion, (4) assist with classroom activities, and (5) monitor discussion and adapt teaching methods to the needs of the group. As time permits, the instructor(s) should visit the participants to assist with individual problems concerning both farm and family management.

Using the teaching guide as it was intended by the authors will not guarantee success in the program. It is intended to be a guide that provides activities that will assist the instructor. Success will, for the most part, be dependent on the commitment of the instructor and participants to the program. You are encouraged to adapt the materials to your own specific needs.

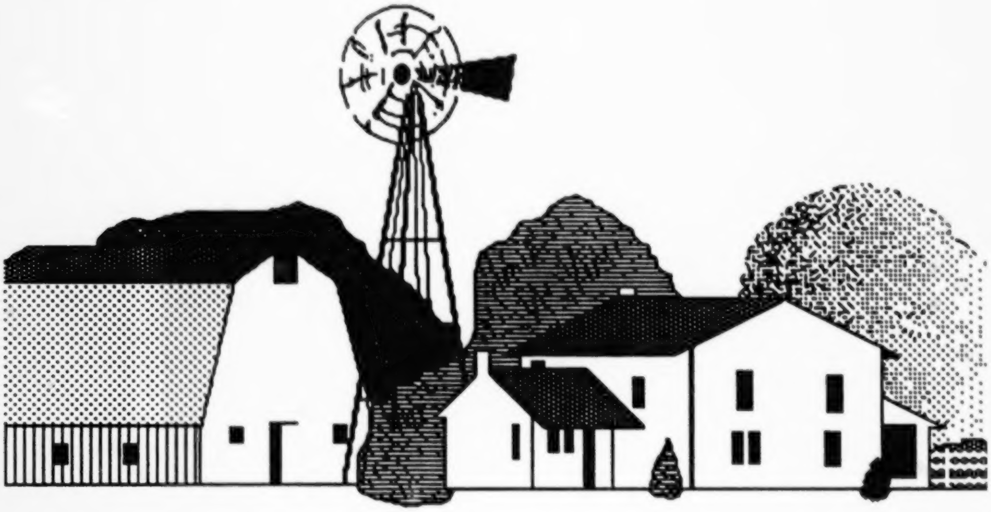
Participants of the Farm and Family Management Program will generally be young farm couples. Materials were developed to emphasize the importance of both farm and family management. The instructor, through instruction, discussion, exercises and on-farm visits, plays a key role in emphasizing this dual effort. The instructor must recognize the contributions of both partners to their farm and family management.

Inventory of Farm and Family Financial Resources

OBJECTIVES:

Upon completion of this unit each farm family will:

1. complete an accurate inventory of current farm and family assets and liabilities,
2. complete an accurate net worth statement based on current farm and family assets and liabilities,
3. be able to interpret the data compiled from the net worth statement using various financial ratios, and
4. compare the farm net worth statement information with regional and state averages for farms of similar size and type.



Prepared by Keith Rheault, Agricultural Education; Galen Herr, Graduate Student, Agricutural Economics; Mark Zidon, Graduate Student, Agricultural Education; William Edwards, Extension Economist; and Cynthia Needles Fletcher, Extension Specialist, Family Environment.

Inventory of Farm and Family Financial Recources

Unit 1. TABLE OF CONTENTS

I. Taking Inventory
    Why Inventory Records Should Be Kept
    When Should Inventories Be Taken?
    What Should Be Included on the Inventory?

II. Asset and Liability Classification
    Current , Intermediate and Long-Term Assets
    Current, Intermediate and Long-Term Liabilities

III. Common Methods of Inventory Valuation
    Purchase Cost value
    Market Value
    Cost or Market Value
    Cost Minus Depreciation
    Unit-livestock-price Method
    Farm Production Cost

IV. Steps in Taking Inventory

V. The Net Worth Statement

VI. Analyzing the Farm Net Worth Statement
    Asset and Liability Comparisons
    Working Capital
    Current Ratio
    Net Capital Ratio
    Debt-to-equity Ratio
    Percent Equity

VII. Analyzing the Family Net Worth Statement
    Liquidity
    Debt Load
    Inflation and Deflation Protection
    Progress Toward Financial Goals

VIII. Exercises
    1-1 Determining the Value of Assets
    1-2 Farm and Family Inventory Examples
    1-3 Identifying Assets and Liabilities
    1-4 Farm and Family Net Worth Statement
    1-5 Farm and Family Financial Ratios
    1-6 Evaluation of Farm and Family Inventory and Financial Statements

TAKING INVENTORY

A good starting point in financial management is to determine where one is financially. This can be done by looking at net worth. Net worth is made up of assets (what you own) and liabilities (what you owe). The classification of assets and liabilities, along with the calculation of the total net worth, provide useful tools to analyze one's financial situation. You begin by taking inventory of what the family and the farm business have.

WHY SHOULD INVENTORY RECORDS BE KEPT

Inventory records should be kept for a number of reasons. Some of these are:

1. To get a true picture of the farm and family financial situation. By using inventory records, an accurate net worth statement can be completed which reflects the farm and family's equity.

2. To reflect noncash income and expenses. By using inventory records, an accurate income statement can be calculated which reflects actual net farm and family income.

3. To provide a record of farm and family asset values for credit purposes, insurance coverages and claims, and for estate planning and settlement purposes.

4. To help plan the cash flow patterns for the coming year highlighting the products that will be available for sale.

5. To provide needed information for whole farm and detailed enterprise analysis.

WHEN SHOULD INVENTORIES BE TAKEN?

The time inventories are taken is governed by two factors: when it is significant to the business operation, and/or when it is convenient to the farm family. Times significant to the business might include:

- the beginning of the year's crop production,
- when a tenant moves on the farm,
- when a lease is renewable,
- when livestock shift from winter feed to summer pasture, or
- when family financial decisions need to be made.

Times that are convenient to the farm family could be less significant to the business. Such times might include:

- when there is little else to do,
- when livestock and crop inventories are smallest, or
- when completing other financial records and tax information.

WHAT SHOULD BE INCLUDED ON THE INVENTORY?

Inventories should include all assets and liabilities significant to the net worth of the family and farm business.

Examples of inventory items include:

-grain and livestock held for sale;
-crops and livestock supplies such as fertilizer, chemicals, feed, and fuel;
-capital assets such as breeding livestock, machinery, buildings, and land;
-financial assets such as stocks, bonds, savings, certificates, and mutual funds;
-accounts receivable (example: hay sold but not yet paid for);
-accounts payable (examples: fuel bill, feed bill, dental bill);
-liabilities such as notes, operating loans, consumer loans, and mortgages; and
-household and personal property.

The list includes assets that could be sold immediately and be used to pay current financial obligations, as well as longer term assets and liabilities.

ASSETS AND LIABILITY CLASSIFICATION

In order to keep inventory records, it is important to know what assets and liabilities are and how they are classified. **Assets** are those items of value including all claims held against others. **Liabilities** are all financial obligations owed to others.

Assets and liabilities are generally categorized into three classes: **current**, **intermediate** (working) and **long term** (fixed). Understanding the differences between the three classes of assets and liabilities is important when preparing and analyzing the farm net worth statement. Although most farm and family assets and liabilities can readily be classified, some items may not clearly fit in one category. If this is the case, consistency in classification from year to year is the key. If asset and liability classifications remain consistent then accurate comparisons can be made. Definitions and examples of the three main classes of assets and liabilities are discussed below.

Current Assets

Current assets include cash and other readily marketed items that could be converted to cash through well established markets. Most current farm assets are items which are consumed in the production process or are sold during the normal operation of the farm during one accounting period. Lenders look toward the current assets as an indicator of potential cash flow into the business during the accounting period. Current family assets can be converted to cash with minimum inconvenience or cost to cover irregular income or unexpected expenditures.

Some examples of current assets are:

current farm assets
cash on hand (checking accounts)
savings accounts
marketable securities
harvested crops (include CCC loans)
purchased feed or seed
raised feed or seed
production costs of growing crops
  (from a prepaid expense)
fertilizer on hand
fuel on hand
chemicals on hand
livestock/poultry purchased for resale
raised livestock for market

current family assets
cash on hand
savings accounts
money market mutual funds
accounts receivable
certificates of deposit
U.S. Series EE or HH bonds
cash value of life insurance

Current assets (continued)

hedging contracts
shop and other supplies (tires, filters)
accounts receivable from sale of a product or service
prepaid expenses (fall applied fertilizer)

Intermediate Assets

Intermediate farm assets are items which in many cases support the production process of the farm but are not used up in one accounting period. They include items which have a useful life of more than one year to less than ten years and are usually not readily converted to cash without some loss in value. Usually these items are depreciable. Intermediate assets generally include machinery and breeding livestock. Family intermediate assets reflect aquisitions of value which will not necessitate current replacement or which could result in loss if liquidation were required.

Examples of intermediate assets are:

intermediate farm assets
farm vehicles
farm machinery
livestock equipment
livestock held for breeding, dairy or sporting purposes
securities not easily marketed
irrigation equipment
shop tools
accounts receivable expected within one to ten years

intermediate family assets
personal and recreational vehicles
household furnishings and appliances
cash value of retirement accounts
garden and lawn equipment
sporting goods
mutual funds
preferred, common stock
corporate or government bonds
antiques
hobby collections (guns, art)
precious metals or gems

Long-Term or Fixed Assets

Fixed farm assets include permanent items which are needed to produce income but are not usually sold during the life of the business. The family home, if separate from the farm business is a long term family asset. Fixed assets generally are land and buildings.

Examples of long term farm assets are:

long-term farm assets
land
buildings
land improvements (wells, tile, terraces)
fences
non-farm real estate

long-term family assets
house

Current liabilities

Current liabilities are debts which are due normally within the operating year and correspond to current assets. Examples of current liabilities are:

current farm liabilities
accounts payable for products or services
interest payable (loans, property, etc.)
taxes
rent and lease payments
short term notes
principal payments due within the year
(intermediate and long term loans).

current family liabilities
family charge accounts
accounts payable
taxes

Intermediate Liabilities

Intermediate liabilities are debts which correspond to intermediate assets having principal payments for more than one year and less than ten years. The portion of the debt that is due during the year is considered to be a current liability.

Examples of intermediate liabilities are:

intermediate farm liabilities
farm machinery loans
loans on irrigation equipment
loans for breeding livestock purchases
farm vehicle loans
loans against life insurance policies

intermediate family liabilities
vehicle loans
loans against life insurance

Long-Term Liabilities

Long term liabilities are debts which correspond to long term assets which are financed for ten years of more. The liability does not include the principal due within the year (this is a current liability).

Examples of long term liabilities are:

long-term farm liabilities
mortgage on farm real estate
building loans
land contracts
mortgage on non-farm real estate

long-term family liabilities
home mortgage

COMMON METHODS OF INVENTORY VALUATION

Inventory valuation is perhaps the most difficult part of taking inventory. Assets are valued by different methods depending on the type of asset. Listed below are common methods of placing a value on assets.

Purchased cost value

This refers to the price at which an item was purchased. This method works particularly well for items that have been recently purchased and will be used up within a relatively short time period. Many of the items listed as current assets can be valued using this method.

Market value

Market value is the value of an item at the market place after adjusting for any marketing or transportation charges. This method works particularly well for items which are being held for sale or which could be sold in a well established market. Again, many items listed as current assets can be valued using this method.

Cost or market value

This refers to the value of an item which is determined by comparing the production cost of the item or its purchase price with its current market value. The lower of the two values is used to reflect the value of the item on the inventory record. This method could be used on any item which was valued using either of the two methods discussed above.

Cost minus depreciation

This method is also referred to as the book value method or modified cost method. It refers to the value of an item at the beginning of an accounting period minus the change in its value during the same period. The reduced value of the assets reflects a noncash expense called depreciation. The annual value changes are calculated for each item through a predetermined depreciation schedule. This method can be used on items which provide service to the farm for more than one year and become less valuable in the process. This is typically the method used for valuing family assets.

Unit-livestock-price method

This is a method used by the Internal Revenue Service (IRS) in which livestock types are classified according to age groups. Animals classified within a particular age group are all valued the same, based on the estimated production costs of each animal in that group. If this method is used, it must be applied to all raised livestock on the farm. Once a value has been established for the animals in each age group it cannot be changed without IRS approval.

Farm production cost

Farm production cost is the actual amount invested in producing a farm asset. This method is used with items that have been produced on the farm and will be used on the farm. Production costs should not include profit, interest on investment or opportunity costs of labor and management.

STEPS IN TAKING INVENTORY

Taking inventory is a task as simple as counting items. However, making an understandable list, assigning values, and using appropriate counting units, can complicate the process. Listed below are some steps and pointers that may be helpful. These steps are written in reference to the farm and family inventory forms found on pages 1-18 to 1-29.

1. Proceed systematically to record the inventory on the forms.
2. Record all quantities in common, easily valued units.
   a) Make actual head counts of all livestock.
   b) Livestock weights must be carefully estimated. If possible, weigh a few representative head to improve accuracy.
   c) Measure feed, stored grain and forage supplies. Use the reference chart on page 1-14 to determine bin sizes or silo capacities.
   d) Adjust quantities for moisture, test weights and spoilage.
3. Obtain a list of depreciable items from your latest tax depreciation schedule.
   a) Check your depreciation schedule for errors and make corrections if necessary.
   b) Items should be categorized as intermediate assets (machinery and equipment) or as fixed assets (buildings and land).
   c) Machinery, equipment, and trucks inventory (p. 1-24) can be omitted if the information needed for the net worth statement is detailed on the depreciation schedule.
4. Record all personal and family assets. Valuation should be based on an estimate of current market value.
5. Complete a list of liabilities.
   a) Secure data directly from the lending source if records are inadequate or unclear.
   b) Calculate the accrued interest on outstanding debts as of the date of the financial statement. The formula for calculating accured interest is:

$$\text{Accrued interest} = \begin{array}{c}\text{current}\\ \text{principal}\\ \text{outstanding}\end{array} \times \begin{array}{c}\text{annual}\\ \text{interest}\\ \text{rate}\end{array} \times \frac{\text{days since last payment}}{365 \text{ days}}$$

6. Place a value on all items included in the inventory.
   a) Use conservative but realistic market value.
   b) Use current market prices for market livestock, stored grain, and forages.
   c) Use purchase price for carry-over feeds and supplies.
   d) Avoid large changes in prices for breeding livestock from year to year.
   e) Indicate whether values assigned to land and depreciable assets are current market values or are based on original coast minus depreciation.
7. Entered inventory information on the net worth statement (see pages 1-32 to 1-35).

When working with the net worth statement and inventory forms, modified cost is the original cost less accumulated depreciation or its book value. The cost on the machinery inventory should include any remaining value of a trade-in plus the cash difference paid.

THE NET WORTH STATEMENT

A net worth statement can be referred to by several names. It can be called a net worth statement, balance sheet, owner's equity, or statement of financial position. Each of these refer to the assets of a business minus the liabilities. The result is the equity or net worth of the business.

Complete and accurate financial statements can be valuable tools when making investment and financial decisions provided they are properly interpreted and analyzed. Before an analysis can be made one needs to know how assets and liabilities can change on a net worth statement. Consider first the assets. **Assets increase through:**

- **Inflation** (increase in value or price)
- **Gifts** (an inheritance of cash or land)
- **Growth** (raised livestock, stored crops, mutual fund shares)
- **Purchases** (land, machinery, supplies, stock portfolio)

When purchases are made, the total assets increase only if money is borrowed to purchase the asset, such as a tractor. If cash in the bank is used, then assets have been converted from cash to machinery with no increase in total assets.
Assets decrease through:

- **Deflation** (stored crops decrease in price)
- **Depreciation** (machinery wears our)
- **Sales** (land, machinery)
- **Casualty** (livestock dies, buildings are destroyed)

A sale decreases assets only if money is used to pay off debt. If the money is put in savings or cash, only the form of the asset is changed. Note that there are fewer variables involved with how liabilities can be increased or decreased on a net worth statement.

Liabilities increase by borrowing, by acquiring assets with a promise to pay later, or through accumulation of interest expense. **Liabilities decrease by repayment of debt.** The only way to reduce debts is to use cash to pay off the debt.

The difference between assets and liabilities is **net worth**. There are three basic ways to change net worth. These are: profits and losses from operating the business, fluctuations in asset values, and withdrawal or injections of capital from outside. Growth increases assets, crops, livestock, etc. from earnings. One must be actively producing to get this net worth increase. Inflation, on the other hand, does not require active production. In past years a farm's net worth increased due to inflation of land and machinery prices.

ANALYZING THE FARM NET WORTH STATEMENT

Once the farm and family net worth statement is completed, several measures of financial condition can be derived from it. Measurements of the farm financial condition are discussed below.

Simple asset / liability comparisons

Begin by looking at each of the major liabilities to see if a corresponding item under the asset side can be found. It will usually be under the same section (current, intermediate, or fixed). If a corresponding asset cannot be found, you may have forgotten to list something. Or the asset originally acquired with borrowed capital may have already been sold or used up without payment of the corresponding liability. This is a danger sign. It means that funds to pay this liability must be generated elsewhere.

Another danger sign which can easily be detected through net worth statement data comparison is a liability which appears closer to the top of the statement than its corresponding asset. An example is a machinery item purchased on a one-year note. It is usually difficult to pay for an asset over a period of time considerably shorter than its useful life.

As a final check, compare the value of a particular liability with the value of its corresponding asset. If the liability value is greater, this could mean that the debt is not adequately secured, or simply that a rapid depreciation method was used.

Working capital

One of the most useful figures that can be computed is the net working capital. Net working capital is the difference between current assets and current liabilities. Current liabilities are due within twelve months. One way to pay them off could be to sell all current assets. The net working capital indicates the potential cash flow for paying current liabilities.

Working capital = current assets - current liabilities

Those operations with a good working capital position (current assets are considerably higher than current liabilities) have a great deal of cushion to weather adversity. They have a the ability to handle unexpected expenditures.

One way to increase working capital is to reduce current liabilities. A traditional way has been to refinance using long term assets as security (borrow money on land to pay off short term debt, for example). However, this places long term assets under greater financial risk.

Current ratio

A ratio which is related closely to working capital is the current ratio. The current ratio is calculated by dividing total current assets by total current liabilities. This is a measure of liquidity, or the ability to pay bills and debts as they come due without interrupting the ongoing operation of the farm.

$$\text{Current ratio} = \frac{\text{total current assets}}{\text{total current liabilities}}$$

A ratio of 2:1 or greater would be considered good by most lenders. This would indicate that there are two dollars of current assets to cover each dollar of current debt. A farm with a current ratio of less than 1:1 would need to generate cash from sources other than current assets to meet its financial obligation.

The current ratio can be affected by the type of farm, volume of production, and financial structure. Farms with continuous livestock production often require lower current ratios than crop farms because they receive income more frequently.

It should also be noted that even a farm with a good overall risk-bearing ability can still have liquidity problems. They may be caused by a low income year resulting in carry-over operating debt, or too rapid an investment of cash into intermediate and long term assets, such as machinery or land.

Net capital ratio

Another useful calculation which can be made from net worth statement is the net capital ratio. This is sometimes referred to as the solvency ratio or asset-to-debt ratio. The net capital ratio is calculated by dividing total farm assets by total farm liabilities.

$$\text{Net capital ratio} = \frac{\text{total assets}}{\text{total liabilities}}$$

The net capital ratio measures the solvency of a farm business. Solvency relates to the farm business's total capital structure. A farm business is solvent if the sale of all assets would generate sufficient cash to pay all debts.

Most lenders would prefer to see a net capital ratio of 2:1. This means there are two dollars of assets for every dollar of debt. A ratio of less than 1:1 would mean that your business cannot cover all its debts and is insolvent. What might be considered a safe ratio between these two extremes can vary depending on the farm involved, the farmer, and the economic conditions of the time. Some farming activities are more stable than others, allowing for a lower ratio. Regardless of the situation, the ultimate decision on what constitutes a safe ratio rests with the individuals involved in the farm business and their financial backers.

Some analysists prefer to calculate the inverse of this ratio, i.e., divide total liabilities by total assets, to calculate the percent debt of the farm (relative to assets).

Debt-to-equity ratio

Another commonly used measure of solvency is the debt-to-equity ratio also known as the leverage ratio. The debt-to-equity ratio is calculated by dividing total liabilities by net worth.

$$\text{Debt-to-equity ratio} = \frac{\text{total liabilities}}{\text{net worth}}$$

This ratio indicates the extent to which debt is combined with equity in financing the farm business. It indicates the amount of dollars lenders have invested for each dollar of owner investment. The higher the value of this ratio, the larger the claims on the farm operator relative to the owner equity. A 1:1 ratio would mean that for each dollar the lenders have invested the owner has a dollar invested. This ratio is actually just another way of showing the same concept at the net capital ratio.

Percent equity

The percent equity figure provides a measure of net worth in relation to total assets.

$$\text{Percent equity} = \frac{\text{net worth}}{\text{total assets}} \times 100$$

ANALYZING THE FAMILY NET WORTH STATEMENT

By keeping a separate financial statement for the family, four aspects of the family's financial position can be analyzed: liquidity, debt load, potential protection against inflation and deflation, and progress toward financial goals. The use of ratio analysis, although common in business, is not as frequently used in family financial evaluation. These measures are applied to check the financial well-being of the family.

Liquidity

A basic measure of liquidity can be formed by relating liquid assets to monthly living expenses. A target of 2 or 3 may be reasonable for many families, indicating that liquid assets could cover 2 or 3 months of family expenditures and debt payments.

$$\textbf{Liquidity ratio} = \frac{\textbf{liquid assets}}{\textbf{monthly expenses}}$$

This ratio helps assess preparedness to meet living expenses from liquid assets if current income is not available.

A similar measure recognizes that investments in fixed dollar and equity assets are to some extent liquid also:

$$\textbf{Liquidity ratio} = \frac{\textbf{current assets}}{\textbf{monthly expenses}}$$

A minimum standard of 6 for this measure is a conservative rule of thumb for having a reserve fund to meet six months income or expenses. It may not be advisable to count assets such as stocks, bonds, and mutual funds at their full current value in such a calculation. Counting only partial value would allow for their lower liquidity and the possibility of declines in their market values.

Debt Load

What portion of your debt could be paid by liquid assets? Liquid assets should provide a sufficient cushion to help handle debt if necessary. A general relationship is:

Asset-to-debt ratio = liquid assets / total debt

Having over a 10% ratio should be comfortable. This ratio indicates the proportion of debt that can be paid off by liquid assets.

Another measure of judging debt position is to relate it to net worth, called the debt-to-equity ratio, with a goal to hold this measure below 1.0.

Debt-to-equity ratio = total liabilities / net worth

Inflation and Deflation Protection

A ratio of inflationary assets compared to fixed-dollar assets gives a rough indication of financial position protection against inflation and deflation. What proportion of your assets will increase in value during inflationary periods? What proportion of your assets provide a hedge against deflation? Are assets diversified or concentrated in one area?

Asset diversification ratio = inflationary assets / net worth

Inflationary or variable dollar assets include investments in equity assets, personal assets, and real estate. Equity assets and real estate do not automatically increase with inflation, but have the possibility of doing so which fixed dollar assets do not. Personal assets may also have the possibility of enhancing your financial position during inflationary periods in that they can be used without the need to buy their services at higher prices. If you expect inflationary periods, a ratio of 1.0 would be a minimum goal. Fixed-dollar assets are a hedge against deflation; as prices drop, these assets provide a stream of income at a fixed rate of interest.

A ratio of 1.0 reflects an equal balance of assets. A ratio greater than 1.0 provides a better hedge against inflation while a ratio less than 1.0 provides greater protection against deflation.

Progress Towards Financial Goals

It is useful to see what proportion of net worth each class of assets contributes to the total family net worth in order to help judge how well situated the farm family is for meeting goals. Look at each net worth segment in terms of total net worth:

Net worth segment / total net worth

If a substantial portion of the family's net worth consists of personal assets it shows that they are not making much progress toward fulfilling other financial goals. Net worth should not be concentrated in only one type of assets less their liabilities. If investments are not diversified, the family's financial position may be at risk. For example, a family may have a strong total net worth position made up mostly of personal and fixed assets with a very small amount of current assets. With low liquidity, they may not be able to meet emergency expenses.

The material presented on farm and family net worth analysis was adapted from:

Personal Financial Statement Analysis by Reynolds Griffith. 1985 Association for Financial Counseling and Planning Education Conference Proceedings, pp. 123-131.

Farm Financial Management: Your Financial Statement by William Edwards, Cooperative Extension Service, Iowa State University (FM-1791, 1984);

Your Balance Sheet by Arlen Leholm, Tom Reff, and Glenn Pederson, Cooperative Extension Service, North Dakota State University (EC-818, 1983), and

Financial Management: Toois and Techniques by B. H. Robinson and E. H. Kaiser, from the Financial Management Handbook, Cooperative Extension Service, Clemson University.

FARM GRAIN AND ROUGHAGES CONVERSION FORMULAS

1. Shelled corn, soybeans, and other grains (bushels).
   Round bin: diameter x diameter x average depth X .628 (all in feet)
   Rectangular bin: length x width x average depth x .8 (all in feet)

2. Ear corn (bushels)
   Round crib: distance around crib x diameter x depth x .1 (all in feet)
   Rectangular crib: length x width x depth x .4 (all in feet)

3. Hay (tons): length x width x height / 500 (all in feet)

4. Straw (tons): length x width x height / 1000 (all in feet)

5. Corn silage (tons at 65 percent moisture)*

Uprignt silo (tons):

	diameter in feet				
Height in feet	18	20	22	24	30
40	202	249	300	356	557
50	227	342	416	493	771
60	362	445	538	638	1,000
70				790	1,235
80				949	1,478

*For haylage at 50% moisture multiply by .715.

Bunker silo (tons per feet of length):

	depth in feet				
Bottom width (ft.)	8	10	12	16	20
20	3.5	4.5	5.5		
30	5.0	6.5	7.9	10.9	
40	6.6	8.5	10.3	14.1	18.0
50	8.2	10.5	12.7	17.3	22.0
60		12.5	15.1	20.5	26.0
70			17.5	23.7	30.0
80			19.9	26.9	34.0
100				33.3	42.0

Source: *Farm Rinancial Management: Your Financial Statement.,* Iowa State Publication FM-1791.

DETERMINING THE VALUE OF ASSETS

Determine the value of each of the following assets using an appropriate method of valuation (refer to text 1-6 to 1-8).

Dairy cow purchased two months ago for $1,200

20 feeder steers weighing an average of 950 pounds each. The expected selling price is $58.00 per cwt. Shipping costs and insurance are $2.00 per head. You can expect one percent shrinkage. Selling commission costs are 4 percent.

160 acres of tillable land purchased three years ago for $2,150 per acre. Comparable land is now selling for approximately $1,200 per acre in the area.

Chisel plow bought five years ago for $5,600. You expect it to last for ten years at which time you expect a salvage value of $600.

One hundred acres of growing corn. The following production costs have been incurred:

Land rent	$ 86.00/acre, half payable in advance.
Fertilizer,pesticides, seed	120.00 per acre
Tillage and planting	25.00 per acre

Expected yield is 120 bu per acre.
Expected selling price is $1.95/bu.

150 shares of XYZ mutual fund, purchased for $15.00 per share, selling today for 23.75 per share.

Antique china cabinet purchased three years agao for $150, appraised recently at $500.

Sofa purchased last year for $1000 (10% annual depreciation).

$20,000 life insurance policy with $7,000 cash value and $2,000 loan outstanding.

I984 van purchased for $12,000. Current "blue book" value $6,300.

FARM INVENTORY EXAMPLE

This example will give you a more thorough understanding of inventories and net worth statements. You will note that portions of the forms are completed while other portions are not. The incomplete portions will serve as a class exercise. You will be presented with additional information and will be asked to complete the inventory and net worth statement. The preentered figures plus your additions from page 1-28 provide totals for the net worth statement (EX 1-4).

EXAMPLE BACKGROUND INFORMATION

Green Acres Farm
Cy and Cybill Clone
Hooterville, Iowa 00101

Cy is 40 years old and Cybill is 38 years old. They have two children, a boy, age 17, and a girl, age 13. They started farming in 1966. Presently they farm 520 acres. They own 320 and rent 200. The 320 acre tract was purchased in the fall of 1975 for $980 per acre. Cy paid 20% down and borrowed the balance from the Federal Land Bank on a 20 year loan. The 200 acre tract is rented on a cash basis for $82 per acre per year.

The major enterprises of the operation are listed and detailed as follows:

A. Crops	Acres	Ave. Yields
Corn	200	140 bu/acre
Soybeans	85	40 bu/acre
Hay	90	4 ton/acre
Oats and seeding	45	70 bu/acre
TOTAL CROPS	490	
Buildings and waste area	30	
TOTAL LAND	520	

Crop rotation used is C-SB and CCCOMM.

B. Cattle

1. Beef cow herd	50 head
2. Cattle feeding	200 head/year

Cy and Cybill buy feeder steers in the late fall or early winter weighing between 500 to 600 pounds to feed along with their own calves.

C. Hogs

They have a farrow to finish hog operation and farrow three groups of 16 sows twice a year using six different farrowing periods. Their facilities consist of a farrowing house with a pig nursery. The operation markets over 600 head of hogs per year.

On the following pages are Cy and Cybill's inventory forms partially completed.

SECURITIES AND RECEIVABLES

Date Acquired	Description	No. of Shares	Percent Owned	Total Cost or Basis	Current Market Value Per Share	Current Market Value Total
Marketable securities (Farm)						
			Totals			
Not-Readily Marketable Securities (Farm)						
3/1/76	Federal Land Bank Stock	2641	100%	13,205.00	5.00	13,205.00
			Totals			
Marketable Securities (Family)						
			Totals			
Not-Readily Marketable Securities (Family)						
			Totals			

Farm Receivables

Date Incurred	From Whom/ Description	Interest Date Due	Interest Rate	Principal	Accrued Interest	Total Due
8/85	Joe Doe / baling	1/1/86	10%	200.00	6.67	206.67
			Totals			

Family Receivables

12/86	Emma Brown			1,173		1,173.00
			Totals			

STORED and GROWING CROPS

	Beginning : Jan 1, 19				Beginning : Jan 1, 19		
Description	Unit	Quantity	Unit Price	Total Value	Quantity	Unit Price	Total Value

STORED CROPS

Ear Corn							
Corn	Bu	8,000	2.24	17,920.00			
Corn (CCC loan)							
TOTAL CORN							
Soybeans	Bu	3,000	5.04	15,120.00			
Soybeans (CCC)							
TOTAL SOYBEANS							
Oats	Bu	3,000	1.50	4,275.00			
Wheat							
Silage							
Hay Big Bales	Bales	450	20.00	9,000.00			
Straw Big Bales	Bale	100	10.00	1,000.00			
Small Bales	Bale	100	1.50	450.00			
TOTAL STORED CROPS							

GROWING CROPS ($ Invested)

TOTAL GROWING CROPS							

PURCHASED FEED, AND CROP AND LIVESTOCK SUPPLIES

PURCHASED FEEDS

Description	Beginning : Jan 1, 19				Beginning : Jan 1, 19		
	Unit	Quantity	Unit Price	Total Value	Quantity	Unit Price	Total Value
Complete feeds							
Supplements							
-Beef	Cwt.	9.0	12.15	109.35			
-Swine							
Minerals	Cwt.	5.00	9.70	48.50			
TOTAL FEEDS PURCHASED							

SUPPLIES

Description	Unit	Quantity	Unit Price	Total Value	Quantity	Unit Price	Total Value
Corn Seed							
Soybean Seed							
Other Seed							
Fertilizer Stored							
Lime Stored							
Chemicals	Gal.	20	20.00	400.00			
	Lbs.	50	1.30	65.00			
Fuel	gal.	300	1.20	360.00			
Oil and Grease				100.00			
Vet Supplies				150.00			
Misc.				50.00			
TOTAL SUPPLIES							

BEEF CATTLE INVENTORY

	Beginning : Jan 1, 19					Beginning : Jan 1, 19				
Description	No. of Head	Ave. Wt.	Total Wt.	Total Price	Value	No. of Head	Ave. Wt.	Total Wt.	Total Price	Value
MARKET CATTLE										
Raised feeder steers	24	600	14,400	$67/cwt	9,648.00					
Raised yearling steers										
Raised feeder heifers										
Raised yearling heifers										
Purchased feeder steers	160	585	93,600	$67/cwt	62,712.00					
Purchased yearling steers										
Purchased feeder heifers										
Purchased yearling heifers										
Total Mkt. Cattle										
BEEF BREEDING										
Raised cows	25			$500/Hd.	12,500.00					
-replacement heifers	10			400/Hd	4,000.00					
Raised bulls										
Purchased cows	25			500/Hd	12,500.00					
-replacement heifers										
Purchased bulls	3			$1000/Hd.	3000.00					
Total Breeding Beef										

SWINE INVENTORY

	Beginning : Jan 1, 19					Beginning : Jan 1, 19				
Description	No. of Head	Ave. Wt.	Total Wt.	Total Price	Value	No. of Head	Ave. Wt.	Total Wt.	Total Price	Value
MARKET SWINE										
Raised feeder pigs										
Pigs 25-50#	129	25	3,225	90/cwt	2,902.50					
Raised market hogs										
100-175#	115	125	14,375	54/cwt	7,762.50					
Purchased feeder pigs										
Purchased market hogs										
Total Mkt.Swine										
BREEDING SWINE										
Raised -sows	40			150/Hd	6000.00					
-bred gilts										
-open gilts										
-boars										
Purchased -sows										
-bred gilts										
-open gilts										
-boars	3			250/Hd	750.00					
Totl Breeding Hogs										

OTHER LIVESTOCK INVENTORY

	Beginning : Jan 1, 19					Beginning : Jan 1, 19				
Description	No. of Head	Ave. Wt.	Total Wt.	Total Price	Value	No. of Head	Ave. Wt.	Total Wt.	Total Price	Value

OTHER MARKET LIVESTOCK

Total Other Lvstk										

DAIRY

Raised -cows										
-heifers										
-bulls										
Purchased -cows										
-heifers										
-bulls										
Total Breeding Dairy										

OTHER BREEDING LIVESTOCK

Total Other Brding										

Date ____________________

MACHINERY, EQUIPMENT, AND TRUCKS

TRACTORS

Date Acquired	Item & Description Year, Make, Model	Percent Owned	Cost	Accum Depr.	Book Value	Est. Mkt. Value
3/83	'82 JD 4440 QR	100%	43,634.00	25,307.72	18,326.28	25,000.00
12/72	'69 JD 3020 D	100%	5,225.00	4,225.00	1,000.00	2,800.00
9/81 Combine/2 heads	'77 JD 6600 D Hydro	50%	12,500.00	8,250.00	4,250.00	9,000.00

CROP EQUIPMENT

2/77 Planter	'77 JD 7000 4-Row	100%	3,900.00	3510.00	390.00	2,500.00
1/76 Tandem Disk	'76 IH 490 21'	"	4,530.00	4,000.00	530.00	3,000.00
3/66 Moldboard Plow	Oliver 5-bottom	"	750.00	750.00	—	300.00
2/71 Chisel Plow	Dakon 13'	"	2,700.00	2,700.00	—	400.00
11/70 Harrow		"	600.00	600.00	—	200.00
1/75 Grain Drill	'73 JD 10'	"	2,120.00	2,120.00	—	1,000.00
9/70 Gravity Wagon	Parker 250 bu.	"	850.00	850.00	—	650.00
8/74 Mower-Cond	'74 JD 1214	"	5,178.00	5,178.00	—	1,200.00
6/68 Rake	JD	"	615.00	615.00	—	200.00

LIVESTOCK EQUIPMENT

8/85 Grinder Mixer	'85 Gehl MX 100	100%	8,590.00	1,288.50	7,301.50	8,500.00
6/79 Manure Loader	'78 JD 148	"	1,990.00	1,393.00	597.00	800.00
7/80 Manure Spreader	'80 JD 54	"	3,110.00	1,866.00	1,244.00	2,000.00
7/81 Skid Loader	'80 Gehl HL2500	"	5,450.00	2,725.00	2,725.00	2,500.00

TRUCKS AND AUTOS (owned by farm)

9/78 Pickup	'78 Ford F150	100%	5,200.00	5,200.00	—	1,500.00
		TOTALS				

Date ____________________

MACHINERY, EQUIPMENT, AND TRUCKS

TRACTORS

Date Acquired	Item & Description Year, Make, Model	Percent Owned	Cost	Accum Depr.	Book Value	Est. Mkt. Value

CROP EQUIPMENT

Date Acquired	Item & Description Year, Make, Model	Percent Owned	Cost	Accum Depr.	Book Value	Est. Mkt. Value
5/81 Big Round Baler	'81 Vermeer 605F	100%	8,500.00	4,250.00	4,250.00	4000.00
8/70 Grain Auger	'70 Glencoe 50'	"	1,210.00	1,210.00	—	600.00
5/67 Cultivator	'67 JD AT 40	"	825.00	825.00	—	700.00
4/72 Rotary Hoe	'72 JD	"	675.00	675.00	—	300.00
3/84 Field Sprayer	'84 Walsh 40'	"	3200.00	1,184.00	2,016.00	2,500.00

LIVESTOCK EQUIPMENT

Date Acquired	Item & Description Year, Make, Model	Percent Owned	Cost	Accum Depr.	Book Value	Est. Mkt. Value
6 - Hay Rings		100%	520.00	340.00	180.00	180.00
8 - Hog Feeders		"	2,000.00	1,600.00	400.00	400.00
8 - Cattle Bunks		"	875.00	525.00	350.00	350.00

TRUCKS AND AUTOS (owned by farm)

Date Acquired	Item & Description Year, Make, Model	Percent Owned	Cost	Accum Depr.	Book Value	Est. Mkt. Value
	TOTALS					

FARM AND FAMILY INVENTORY EX 1-2

Date ____________________

PERSONAL AND FAMILY ASSETS

Furniture

Item and Description	Purchase Date	Purchase Price	Market Value
Studio Couch			125.00
E-Z Chair			100.00
3 Bedroom Sets			600.00
Desk and Filing Cabinet			200.00
T.V.			150.00
Stereo			200.00
	Totals		

Appliances

Item and Description	Purchase Date	Purchase Price	Market Value
Refrigerator			200.00
Electric Range			250.00
Chest Freezer			150.00
Washer and Dryer			400.00
Dishwasher			250.00
Misc. Small Appliances			150.00
	Totals		

Household goods, clothing, and personal items

Item and Description	Purchase Date	Purchase Price	Market Value
Estimated value of clothing			500.00
Jewelry Diamond Ring			275.00
Gold Jewelry			50.00
Antiques Old Oak Table			300.00
	Totals		

PERSONAL AND FAMILY ASSETS

Personal and recreational vehicles

Date Acquired	Make and Model	Year	Cost	Estimated Value
2/80	Oldsmobile Cutless Supreme	1978	8,271.00	2,000.00
		Totals		

Life insurance

Date	Insurance co.	Insured	Beneficiary	Policy Type	Face Value	Cash Value
			Totals			

Non-farm real estate

Date Acquired	Item/Legal Description	Name on Title	Cost or Basis	Market Value
11/21/67	House in Hooterville	Cybill Clone	20,000.00	30,000.00
		Totals		

FARM FIXED ASSETS

Farm Real Estate and Facilities

Date Acquired	Item/ Legal Description	Name on title	Cost or Basis	Accum. Depr.	Book Value	Market Value
3/1/76	N½ of Sec 3 320 A	Cy+Cybill	313,600.--		313,600.00	368,000.00

Buildings

9/78	Farrowing House + Nursery	30,000.00	9,600.00	20,400.00	45,000.00
9/81	Machinery Shed	10,500.00	4,620.00	5,880.00	

Land improvements

76-80	Drainage Tile	14,000.00	3,500.00	10,500.00	value included in land
76-78	Terraces/Ditch Straightening	16,000.00	5,600.00	10,400.00	
	Totals				

Farm real estate rented

Legal Description of rented property	Landlord	Type of lease	Date expires	Acres	Annual rent
40 A SW¼ SW¼ Sec 2	I.M. Richer	cash	1/1/87	40	2,800.00
160 A SE ¼, Sec 3	I.M. Richer	cash	1/1/87	160	13,600.00
Totals					

LIST OF LIABILITIES

Date of origin	To whom owed	Purpose	Due date	Int rate	Payment dates	Accrued interest	Unpaid principal balance	Principal due Due in 12 mo.	Principal due Due Past 12 mo.

FARM LIABILITIES

Current Notes and Accounts Payable (farm only)

	Farmers Coop	acct	1/30/86			-0-	2,736.00	2,736.00	
11/1/85	CCC	Loan on Corn	8/1/86	8.5%		708.33	50,000.00	50,000.00	
12/1/85	Hooterville Bank	Feeder Cattle	10/1/86	14.0%		233.33	20,000.00	20,000.00	
Totals									

Intermediate-Term Liabilities (farm notes and sales contracts)

7/1/85	Hooterville Bank	Machine Shed	7/1/91	10.0%	7/1/85	300.00	6,000.00	1,000.00	5,000.00
8/15/82	"	Grain Bin	8/15/87	14.0%	8/15/85	291.67	5,000.00	1,200.00	3,800.00
Totals									

Long Term Liabilities

Farm Real Estate Mortgages and Land Contracts

3/1/76	FLBA	Land Mortgage	3/1/96	13.0	9/1/85	8,397.35	193,785.00	10,520.72	183,264.28
Totals									

FAMILY LIABILITIES

Current Notes and Accounts Payable (family)

	Master Card						894.00	894.00	
	Hardware Store						215.00	215.00	

Intermediate-Term Liabilities

Life Insurance policy loans

Long-Term Liabilites

Non-farm real estate mortgages

1/70	Hooterville S+L	Home Mortgage		7.0	monthly		2,500.00		
Totals									

Complete the Farm and Family Inventory by adding the following items:

1978 IH 886 tractor bought in January 1980 for $16,775.00. It has an accumulated depreciation of $10,065.00, and an estimated market value of $10,500.

A parker 300 bushel gravity wagon bought in August, 1979 for $1,475.00. It has an accumulated depreciation of $1,032.50 and an estimated market value of $950.00

A 1984 Calmut Slurry Wagon bought in October, 1984 for $6,500.00. It has an accumulated depreciation of 2,405.00 and an estimated market value of $5,000.00.

A 10,000 bushel grain bin bought in August, 1982 for $8,000.00. The accumulated depreciation is $2,800 and the market value is $5,000.

A dining room set with current market value of $400.00.

A microwave oven with current market value of $200.00.

A loan on a tractor owed to Hooterville State Bank aquired on March 10, 1983 to be paid by March 10, 1990. The interest rate is 14 percent. The unpaid principal is $28,500.00 and accrued interest is $3,325.00. The payment date is March 1. In 12 months $3,500 principal is due and $25,000 due past 12 months.

One hundred dollars of Farmer's Coop membership stock acquired January 17, 1966.

Twenty thousand bushels of corn under CCC loan at $2.50 per bushel.

100 shares Cyclone Mutual Fund purchased 12/1/85 for $20.00 per share; currently selling for $25 per share.

$5,000 municipal bond purchased 1/1/83; currently valued at $6,000.

1979 Ford Station Wagon purchased 8/8/79 with current book value of $3,000.

Tape recorder purchased 5 years ago for $50; 10% annual depreciation rate.

Antique clock inherited last year, appraised recently at $400.

Three tons of soybean meal for hogs at $205.00 per ton.

Twenty-five raised feeder heifers with an average weight of 500# valued at $58.00/cwt.

Sixty-one raised market hogs with an average weight of 240# valued at $45.00/cwt.

Ten raised bred gilts at $100.00 per head.

EX 1-3

Identify each of the following as current, intermediate, or long term and as a asset of liability. Do this by placing a check mark in the appropriate columns.

Asset	Liability	Current	Intermediate	Long Term	
					Corn stored for sale
					Chattel loan on breeding livestock
					Arizona condominium
					CCC stored grain
					Individual Retirement Account (IRA)
					Loan on hog building
					48 month car loan
					PCA operating loan
					Prepaid fertilizer
					Culled cows
					FmHA loan on land
					Two miles of cattle fencing
					Master charge account
					Series EE bond
					Tractor (about to be traded in)

EX 1-4

FARM NET WORTH STATEMENT

NAME: Green Acres Farm
DATE:
ADDRESS: Hooterville, Iowa 00100

ASSETS (FARM ONLY)		MODIFIED COST	MARKET VALUE
CURRENT ASSETS			
Cash and Checking Account		510.12	570.12
Savings Account/Time Certificate		1,000.00	1,000.00
Money Market Funds		152.00	152.00
Marketable Securities			
Notes and Accounts Receivable		206.67	206.67
Stored Crops		97,765.00	97,765.00
Growing Crops			
Purchased Feed		772.85	772.85
Supplies		1,125.00	1,125.00
Market Cattle		79,610.00	79,610.00
Market Swine		17,253.00	17,253.00
Other Market Livestock			
Prepaid Expenses	Fert NH3	2,000.00	2,000.00
Other Current Assets			
Total Current Assets			
INTERMEDIATE ASSETS			
Breeding Livestock -Beef		32,000.00	32,000.00
-Dairy			
-Swine		7,750.00	7,750.00
Other Breeding Livestock			
Notes Receivable			
Securities (not readily marketable)		13,305.00	13,305.00
*Machinery, equipment, and trucks		54,807.28	87,030.00
Other Intermediate Assets			
Total Intermediate Use Assets			
LONG-TERM ASSETS			
Farmland Real Estate		313,600.00	368,000.00
Building and Facilities		31,480.00	50,000.00
Total Long-Term Assets			
TOTAL FARM ASSETS			

* Modified cost is calculated as initial cost minus accumulated depreciation or "book value" (from inventory sheet).

EX 1-4

FARM NET WORTH STATEMENT

NAME:

DATE:

LIABILITIES AND NET WORTH (FARM ONLY)	MARKET VALUE
CURRENT LIABILITIES	
Accounts Payable	2,736.00
Notes Payable (within 12 months)	20,000.00
Principal Portion of Intermediate Debt Due within 12 Months	5,700.00
Principal Portion of Long-Term Debt Due within 12 Months	10,520.72
Accrued Interest (all debts)	13,255.68
Accrued Liabilities - taxes	2,450.00
Accrued Liabilities - Rent	
Accrued Liabilities - Other	
C.C.C. Loans (9 month)	50,000.00
TOTAL CURRENT LIABILITIES	
INTERMEDIATE LIABILITIES	
Notes Payable	33,800.00
TOTAL INTERMEDIATE LIABILITIES	
LONG-TERM LIABILITIES	
Mortgage on Farm Real Estate	183,264.28
Land Contracts	

TOTAL LIABILITIES	MODIFIED COST	
NET WORTH (Owner's Equity)		
TOTAL LIABILITIES AND NET WORTH		

EX 1-4

FAMILY NET WORTH STATEMENT

NAME: Cy and Cybill Clone
ADDRESS: Hooterville, IA 00100
DATE:

ASSETS (FAMILY ONLY) MARKET VALUE

CURRENT ASSETS	Subtotals	Totals
Liquid Assets:		
Cash and Checking Accounts	353.00	
Savings Accounts	1,000.00	
Money Market Funds		
Accounts Receivable	1,173.00	
Other		
Total Liquid Assets		
Investments in Fixed Dollar Assets:		
Certificates of Deposit		
Cash Value of Life Insurance and Annuities		
Bonds	6,000.00	
Other		
Total Fixed Dollar Assets		
Investments in Equity Assets:		
Marketable Stock		
Mutual Funds	2,500.00	
Other		
Total Equity Assets		
Total Current Assets		
INTERMEDIATE ASSETS		
Personal Assets:		
Personal and Recreational Vehicles	5,000.00	
Furniture and Appliances	3,400.00	
Clothing, Furs, and Jewelry	825.00	
Art, Antiques, and Collectibles	700.00	
Other		
Total Personal Assets		
Notes Receivable		
Deferred Assets:		
Retirement Accounts (IRA, Keogh)		
Employee Pension Plans		
Other		
Total Deferred Assets		
Total Intermediate Assets		
LONG TERM ASSETS		
Non-Farm Real Estate	30,000.00	
Other		
Total Long-Term Assets		
TOTAL FAMILY ASSETS		

EX 1-4

FAMILY NET WORTH STATEMENT

NAME:

DATE:

PERSONAL AND FAMILY LIABILITIES AND NET WORTH	MARKET VALUE
CURRENT LIABILITIES	
Charge Accounts	
Credit Card Balances	894.00
Accounts Payable	215.00
Installment Contracts (less than 12 months)	
Principal Portion of Longer-Term Debt Due Within 12 Months	
Other Current Liabilities	
TOTAL CURRENT LIABILITIES	
INTERMEDIATE LIABILITIES	
Notes Payable (Car Loan)	
Life Insurance Policy Loans	
Installment Contracts	
Other	
TOTAL INTERMEDIATE LIABILITIES	
LONG-TERM LIABILITIES	
Mortgage on Non-farm Real Estate	2,500.00
Other	
TOTAL LIABILITIES	
NET WORTH (Owner's Equity)	
TOTAL LIABILITIES AND NET WORTH	

EX 1-5

FARM AND FAMILY FINANCIAL RATOIS

Using the formulas, calculate each of the following for the example of Cy and Cybill Clone.

Working capital = Current assets - Current Liabilities

$$\text{Current ratio} = \frac{\text{Total current assets}}{\text{Total current liabilities}}$$

$$\text{Net capital ratio} = \frac{\text{Total assets}}{\text{Total liabilities}}$$

$$\text{Debt-to-equity ratio} = \frac{\text{Total liabilities}}{\text{Net worth}}$$

$$\text{Debt-to-equity ratio} = \frac{\text{Total family liabilities}}{\text{Family net worth}}$$

Refer to pages 3-9 to 3-13 for explanation of each ratio.

EX 1-6

Evaluation of Farm and Family Inventory and Net Worth Statement

After completing the Farm and Family Inventory and Net Worth Statement, fill out this worksheet. Rate the following items according to this scale:

1 - Very difficult to complete
2 - Somewhat difficult
3 - Not difficult
4 - Easy to complete
5 - Very easy

	1	2	3	4	5
1. Identify Farm and Family Assets	☐	☐	☐	☐	☐
2. Select Appropriate Method of Valuation	☐	☐	☐	☐	☐
3. Determine Asset Values	☐	☐	☐	☐	☐
4. Determine Entry Location on Forms	☐	☐	☐	☐	☐
5. Identify as Current, Intermediate, or Fixed	☐	☐	☐	☐	☐
6. Work with the Forms (entering, totaling, etc.)	☐	☐	☐	☐	☐
7. Calculate Financial Ratios	☐	☐	☐	☐	☐
8. Complete the following inventory forms:					
Securities and Receivables	☐	☐	☐	☐	☐
Stored and Growing Crops	☐	☐	☐	☐	☐
Purchased Feed/Crop and Livestock Supplies	☐	☐	☐	☐	☐
Beef/Swine/Livestock Inventory	☐	☐	☐	☐	☐
Machinery, Equipment, and Trucks	☐	☐	☐	☐	☐
Personal and Family Assets	☐	☐	☐	☐	☐
Farm and Fixed Assets	☐	☐	☐	☐	☐
List of Liabilities	☐	☐	☐	☐	☐
9. Complete the Farm/Family Net Worth Statement	☐	☐	☐	☐	☐

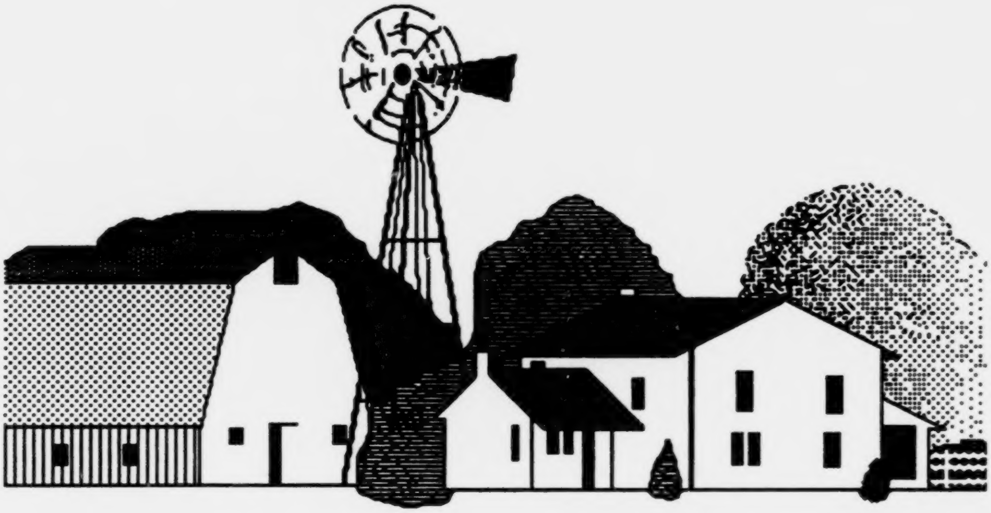
10. Briefly explain any successes or problems you may have had with this assignment:

Inventory of Farm and Family Financial Resources

OBJECTIVES:

Upon completion of this unit each farm family will:

1. complete an accurate inventory of current farm and family assets and liabilities,
2. complete an accurate net worth statement based on current farm and family assets and liabilities,
3. be able to interpret the data compiled from the net worth statement using various financial ratios, and
4. compare the farm net worth statement information with regional and state averages for farms of similar size and type.



Prepared by Keith Rheault, Agricultural Education; Galen Herr, Graduate Student, Agricultural Economics; Mark Zidon, Graduate Student, Agricultural Education; William Edwards, Extension Economist; and Cynthia Needles Fletcher, Extension Specialist, Family Environment.

INTEREST APPROACH:

Using Transparency 1-1, discuss the concept of assets and liabilities. Is a growing crop an asset or liability? Is it easy to determine the value of this asset or liability? Are there other assets and liabilities that are not very "clear cut" or well defined? A few thought provoking questions of this nature should develop the need within the participants for attention to this area.

Alternate interest approach: Ask one of the participants in the class to remove everything from his/her pocket and place it on the table in front of him/her. Give him/her a sheet of paper and pencil and ask him/her to record everything he/she has on the table noting the date and the time. Ask him/her what he/she just did. He/she will probably reply "I've taken an inventory". Now pick up one of the items - ask him/her if that changes the inventory. The object of this exercise is to bring out several factors of inventory:

A. The inventory is a complete list assets and liabilities,

B. It must be recorded in some form, and

C. Once an inventory has been taken, changes will not alter the inventory taken at a specific time. It is a snapshot and not a moving picture.

TEACHING OUTLINE

Materials Needed	Approximate Time (min)	Activity	Reference Page
TM 1-2	10	Discuss the why, when, what, and how of inventories.	1- 3
TM 1-3 to TM 1-7	15	Review definitions of assets and liabilities. Have participants identify assets and liabilities.	1-4
TM 1-8	10	Work problem on counting assets (stored grain). Discuss the need for accuracy and efficiency in counting.	
TM 1-9	5	Discuss common units used in counting.	
TM 1-10 TM 1-11	15	Present methods of determining value of assets.	1-7
TM 1-12	10	Discuss steps in taking an inventory.	1-8
EX 1-1		Work problems on determining value of assets.	

TEACHING OUTLINE (continued)

Materials Needed	Approximate Time (min)	Activity	Reference Page
TM 1-13 TM 1-14 EX 1-2	10	Explain entries on net worth statements.	1-9 1-18
EX 1-2	20	Have participants complete the example inventory problem.	1-30
TM 1-15 EX 1-3	15	Discuss the classification of assets and liabilities. Identify assets and liabilities as current, intermediate, or long term liabilities.	1-4
EX 1-4	10	Have participants complete the net worth statement problem	1-32
EX 1-5	20	Using the example net worth problem worked, calculate financial ratios.	1-9 1-36

OPTIONAL ACTIVITIES

If participants are interested, demonstrate how to complete an inventory, net worth statement, and financial ratios using a computer program. Have interested participants do the same if enough computers are available.

ON-FARM ACTIVITY

Participants should complete their own inventories, financial statements, and financial ratios. The instructor should make on farm visits to assist participants if help is needed. Confidentiality is important. Participants can use forms provided or similar forms of their choice. A sheet (EX 1-6 on page 1-37) is provided to evaluate the completion of the net worth statement.

EVALUATION

The test of this unit is to have the participants complete their own inventory, net worth statement, and financial ratios. The best form of evaluation would be to assist the participants in evaluating these items. Again, confidentiality is important. The participants may choose to complete the inventory and evaluation sheet without the assistance of the instructor. In such cases, one could expect the participants to turn in the evaluation sheet to the instructor.

SUPPORT MATERIALS

Farm Accounting and Business Analysis, by Sidney James and Everett Stoneberg, ISU Press, 1979.

Farm and Ranch Business Management, by Jim Seward and Raliegh Jobes, John Deere & Company, Moline, Illinois, 1985.

Farmer's Tax Guide, Publication 225, Internal Revenue Service, published annually.

Accounting Periods and Methods, Publication 538, Internal Revenue Service, published annually.

Suggested Closing inventory Prices, FM 1490, Cooperative Extension Service, Iowa State University, revised annually.

Farm Business Summary, FM 1788, Cooperative Extension Service, Iowa State University, revised annually.

Iowa Farm Costs and Returns, FM 1789, Cooperative Extension Service, Iowa State University, revised annually.

Teaching Guide: To help you with Exercise 1-2, inventory location of each item is in italics on this teaching guide. Participants' entries and existing inventory items added together equals totals on the net worth statements for Exercise 1-4.

Complete the Farm and Family Inventory by adding the following items:

1978 IH 886 tractor bought in January 1980 for $16,775.00. It has an accumulated depreciation of $10,065.00, and an estimated market value of $10,500.
Asset, page 1-24 under tractors

A parker 300 bushel gravity wagon bought in August, 1979 for $1,475.00. It has an accumulated depreciation of $1,032.50 and an estimated market value of $950.00
Asset, page 1-24 under crop equipment

A 1984 Calmut Slurry Wagon bought in October, 1984 for $6,500.00. It has an accumulated depreciation of 2,405.00 and an estimated market value of $5,000.00.
Asset, page 1-24 under livestock equipment

A 10,000 bushel grain bin bought in August, 1982 for $8,000.00. The accumulated depreciation is $2,800 and the market value is $5,000.
Farm fixed asset, page 1-28 under buildings

A dining room set with current market value of $400.00.
Asset, page 1-26 under furniture

A microwave oven with current market value of $200.00.
Asset, page 1-26 under appliances

A loan on a tractor owed to Hooterville State Bank aquired on March 10, 1983 to be paid by March 10, 1990. The interest rate is 14 percent. The unpaid principal is $28,500.00 and accrued interest is $3,325.00. The payment date is March 1. In 12 months $3,500 principal is due and $25,000 due past 12 months.
Liability, page 1-29 under intermediate-term liabilities, farm

One hundred dollars of Farmer's Coop membership stock acquired January 17, 1966.
Asset, page 1-18 under non-readily marketable securities, farm

Twenty thousand bushels of corn under CCC loan at $2.50 per bushel.
Asset, page 1-19 under stored crops

100 shares Cyclone Mutual Fund purchased 12/1/85 for $20.00 per share; currently selling for $25 per share.
Asset, page 1-18 under marketable security (family)

$5,000 municipal bond purchased 1/1/83; currently valued at $6,000.
Asset, page 1-18 under marketable security (family)

1979 Ford Station Wagon purchased 8/8/79 with current book value of $3,000.
Asset, page 1-27 under personal and recreational vehicles

Tape recorder purchased 5 years ago for $50; 10% annual depreciation rate.
Asset, page 1-26 under appliances

Antique clock inherited last year, appraised recently at $400.
Asset, page 1-26 under household goods, antiques

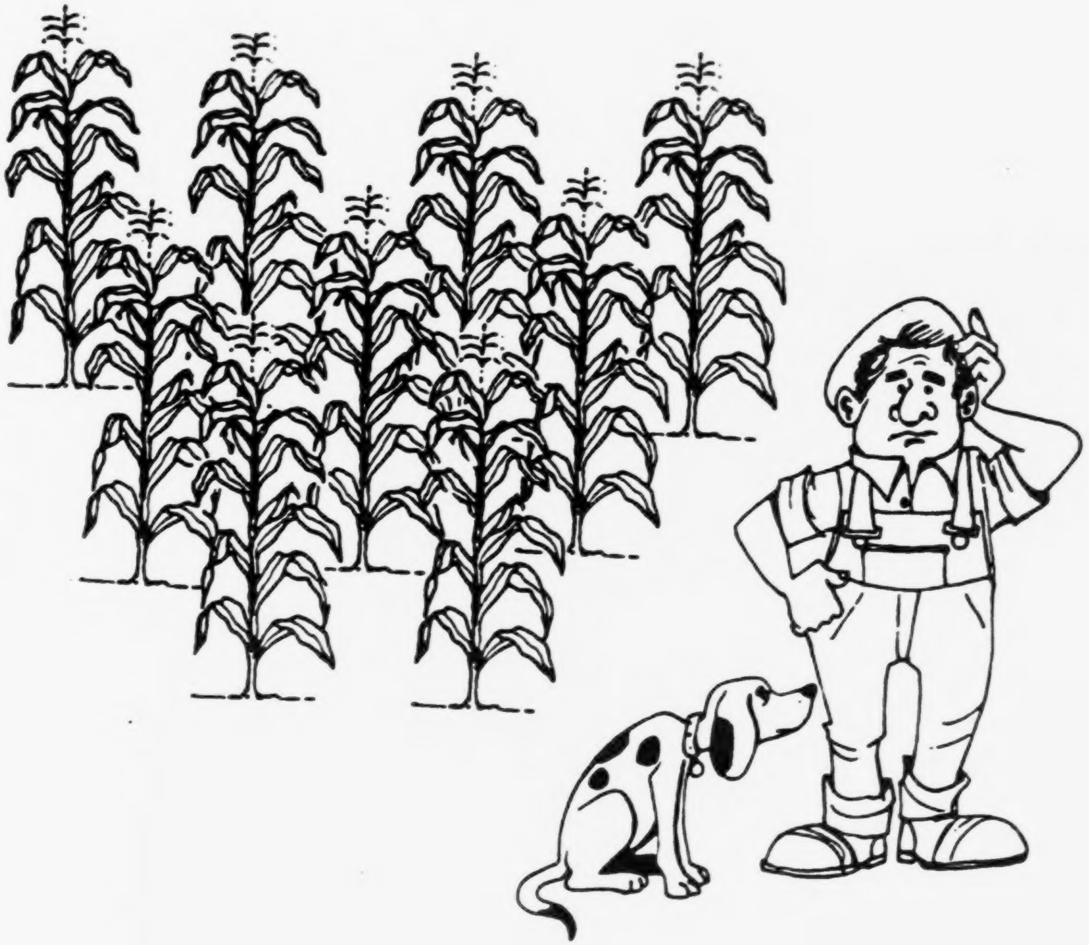
Three tons of soybean meal for hogs at $205.00 per ton.
Asset, page 1-20 under purchased feed

Twenty-five raised feeder heifers with an average weight of 500# valued at $58.00/cwt.
Asset, page 1-21 under market cattle

Sixty-one raised market hogs with an average weight of 240# valued at $45.00/cwt.
Asset, page 1-22 under market swine, raised market hogs

Ten raised bred gilts at $100.00 per head.
Asset, page 1-22 under breeding swine, raised gilts

"ASSET OR LIABILITY?"



"THE WAY PRICES HAVE BEEN, I'M NOT SURE WHETHER THIS FIELD OF CORN IS AN ASSET OR A LIABILITY."

Why . . . *should inventories be kept?*

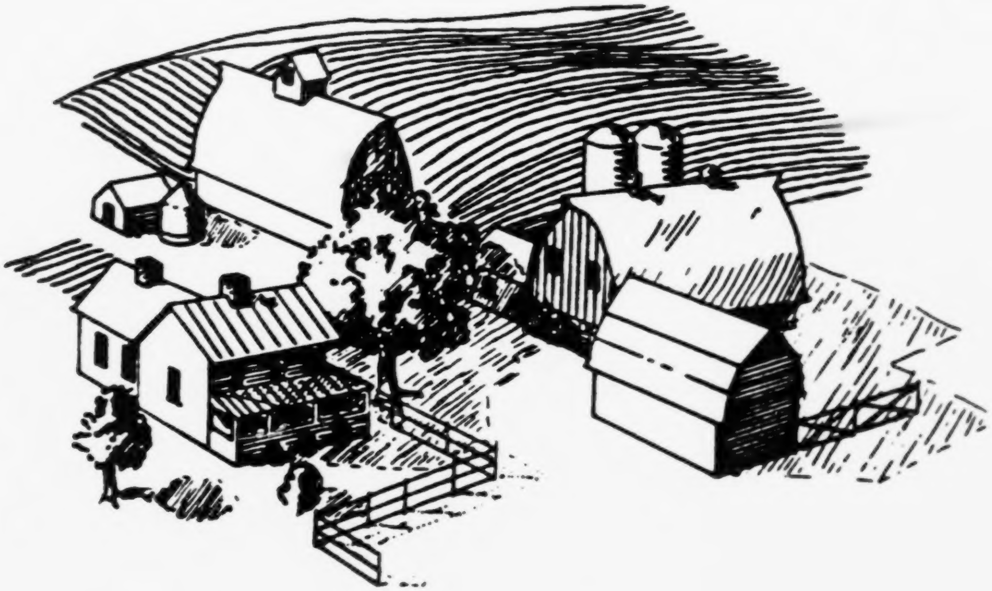
When . . . *should inventories be done?*

What . . . *should be inventoried?*

How . . . *should values be determined?*

ASSETS

-THOSE ITEMS OF VALUE owned by the farm family

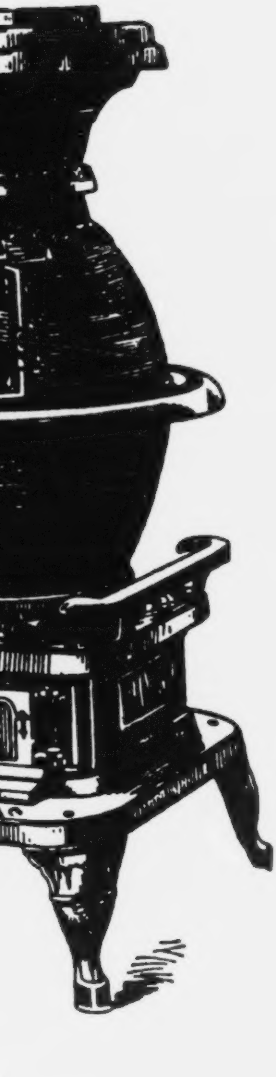


LIABILITIES

-ALL FINANCIAL OBLIGATIONS OWED TO OTHERS

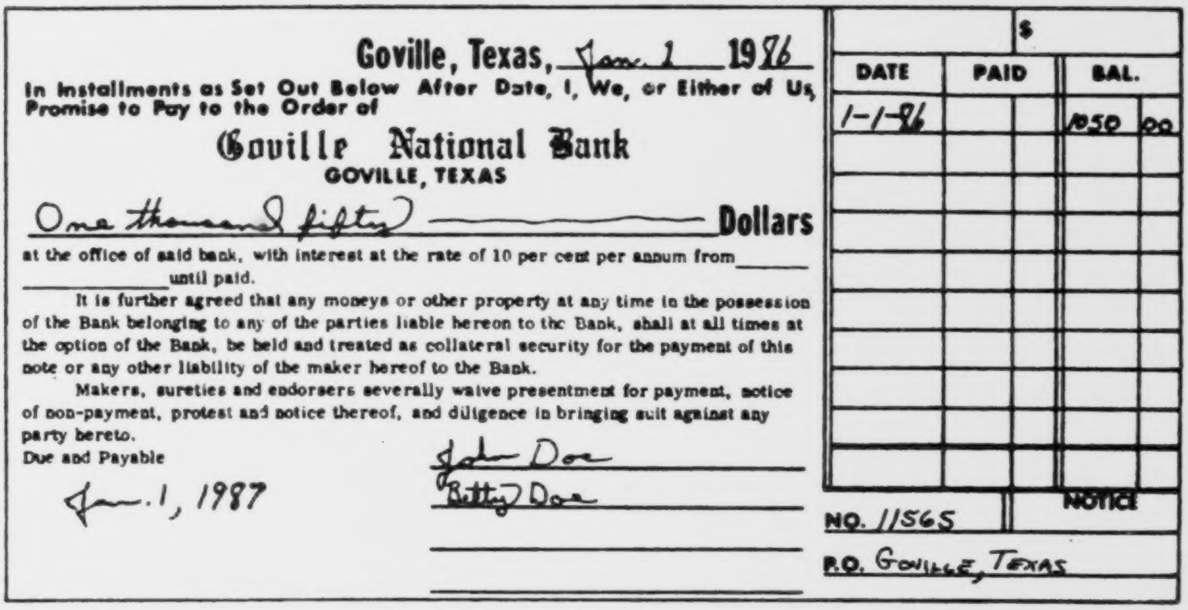
"ASSET OR LI

LIABILITY?"



"ASSET OR LIABILITY?"

PROMISSORY NOTE



Goville, Texas, Jan. 1 1986

In Installments as Set Out Below After Date, I, We, or Either of Us, Promise to Pay to the Order of

Goville National Bank
GOVILLE, TEXAS

One thousand fifty Dollars

at the office of said bank, with interest at the rate of 10 per cent per annum from ______ until paid.

It is further agreed that any moneys or other property at any time in the possession of the Bank belonging to any of the parties liable hereon to the Bank, shall at all times at the option of the Bank, be held and treated as collateral security for the payment of this note or any other liability of the maker hereof to the Bank.

Makers, sureties and endorsers severally waive presentment for payment, notice of non-payment, protest and notice thereof, and diligence in bringing suit against any party hereto.

Due and Payable
Jan. 1, 1987

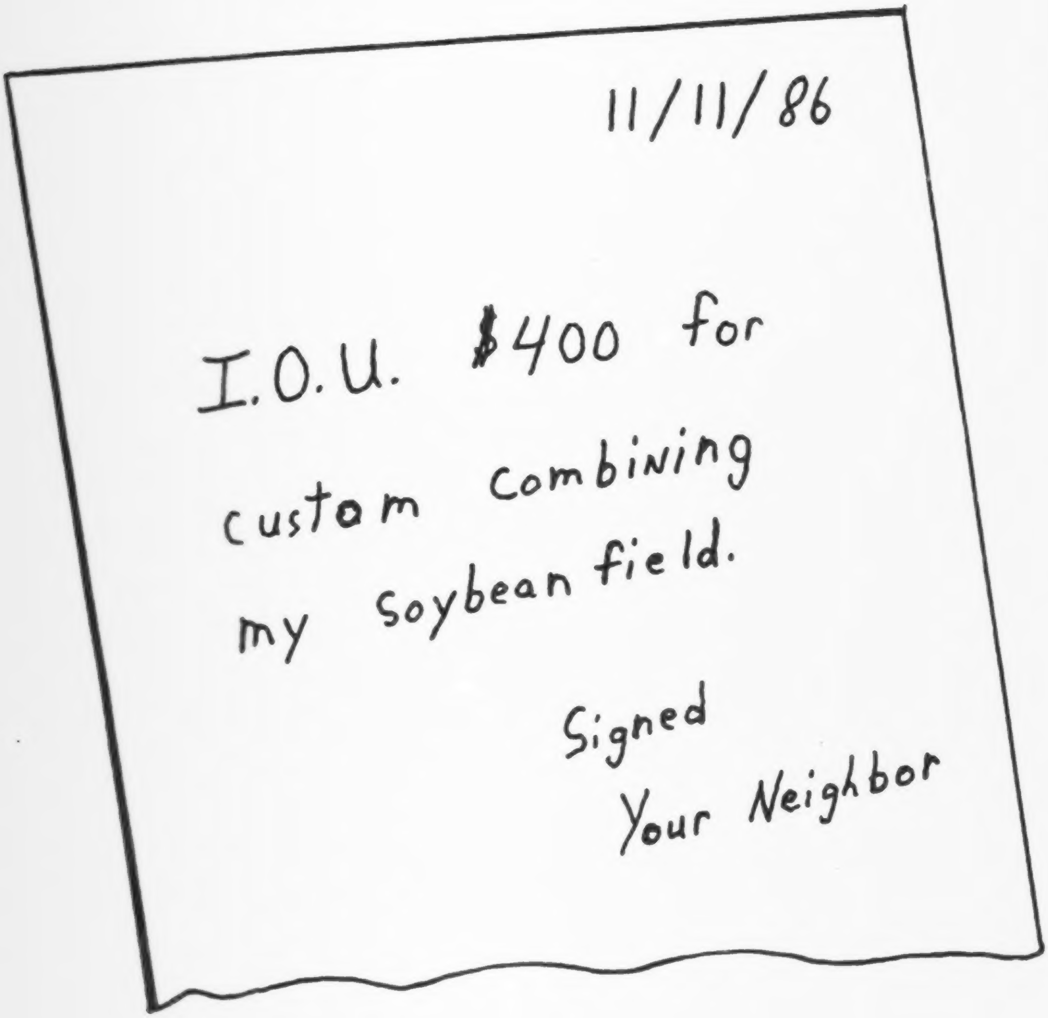
John Doe
Betty Doe

		$
DATE	PAID	BAL.
1-1-86		1050 00

NO. 11565
NOTICE
P.O. Goville, Texas

TM 1-7

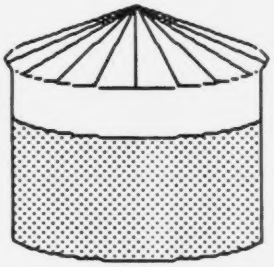
"ASSET OR LIABILITY?"



11/11/86

I.O.U. $400 for custom combining my soybean field.

Signed
Your Neighbor

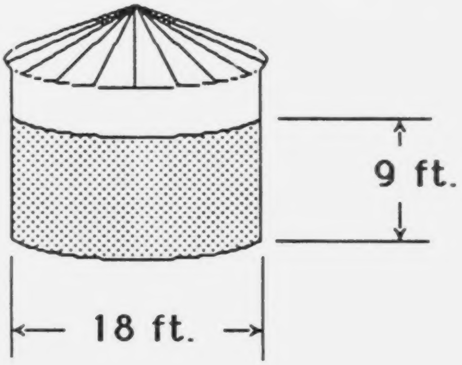


Bin capacity = 2,400 bushels

Bin is approximately 2/3 full.

Determine the number of bushels of grain.

____________ bu.



Diameter = 18 ft.

Average depth is 9 feet.

.8 sq. ft is equal to one bushel

Determine the number of bushels of grain.

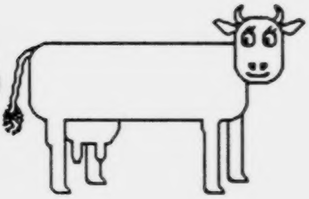
____________ bu.

How important is accuracy of measurement?

Identify the units commonly used for counting the following items.

---

1. CORN
2. SOYBEANS
3. SUNFLOWERS
4. GROWING WINTER WHEAT
5. FEEDER PIGS
6. BRED HEIFERS
7. COWS WITH CALVES
8. TURKEYS
9. SILAGE
10. HAY
11. FERTILIZER
12. HERBICIDES
13. FUEL
14. MACHINERY
15. LAND
16. LIFE INSURANCE ASSET VALUE
17. OFFICE EQUIPMENT

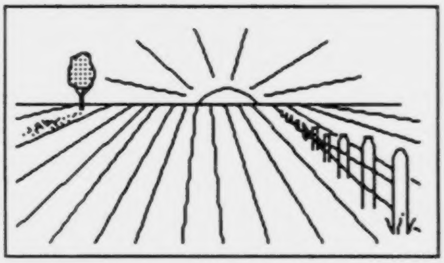


PURCHASED COST VALUE

PRICE PAID FOR ASSET

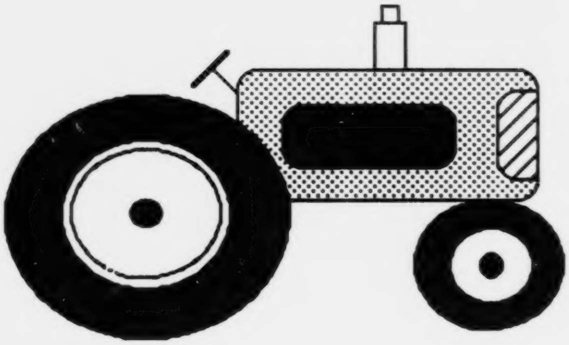
MARKET VALUE

MARKET PRICE MINUS ADJUSTMENT FOR SELLING COST.



COST OR MARKET VALUE

LOWER OF THE COST OR CURRENT MARKET VALUE



COST MINUS DEPRECIATION

ORIGINAL PRICE MINUS DEPRECIATION OVER TIME

Determining Value of Assets

Modified Cost

= *Original cost minus depreciation.*

Example: $10,000 pickup depreciated for three years at $2,000 per year.

Purchase price	$10,000
Minus depreciation	-6,000
Equals Modified Cost	$ 4,000

Market Value

= *Price the asset would bring if sold.*

Example: Common Stocks

Units	100
Current price	$42
Market value	$4,200

STEPS IN TAKING AN INVENTORY

1. Proceed systematically using forms
2. Record quantities in common units
3. Use depreciation list from tax records
4. Record family and farm assets
5. Place a value on each item
6. Complete a list of liabilities and their values
7. Enter information on net worth statement

What's in a name?

ASSETS

MINUS

LIABILITIES

RELATES TO:

NET WORTH STATEMENT

BALANCE SHEET

FINANCIAL STATEMENT

OWNER'S EQUITY

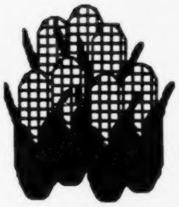
STATEMENT OF FINANCIAL POSITION

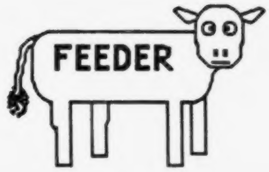
TM 1-14

NET WORTH STATEMENT
(simple design)

	Beginning of year date____	End of year date____
Farm Assets		
Land	$ ________	$ ________
Livestock	________	________
Farm Buildings	________	________
Machinery	________	________
Feed, Crops and Supplies	________	________
Total Farm Assets	$ ________	$ ________
Other Assets		
Dwelling	$ ________	$ ________
Household equipment	________	________
Other property	________	________
Cash on hand and in bank.	________	________
Notes receivable	________	________
Accounts receivable	________	________
Mortgages receivable (Maturity Date)	________	________
Interest Accrued on accounts receivable	________	________
Stocks and bonds	________	________
Total Other Assets	$ ________	$ ________
TOTAL ALL ASSETS	$ ________	$ ________
Liabilities		
Notes payable	$ ________	$ ________
Accounts payable.	________	________
Mortgages payable (Maturity Date) . . .	________	________
Taxes due	________	________
Interest Payable	________	________
. . . .	________	________
TOTAL LIABILITIES	$ ________	$ ________
Net Worth		
Net worth (Assets minus liabilities)	$ ________	$ ________
Increase (or decrease) in net worth		$ ________

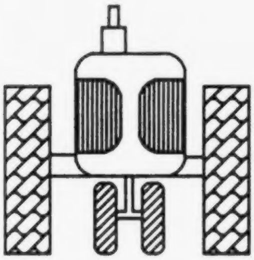
Adapted from: *South Carolina Farm Record Book,* Clemson University Cooperative Extension Service, Clemson, South Carolina, 1981.



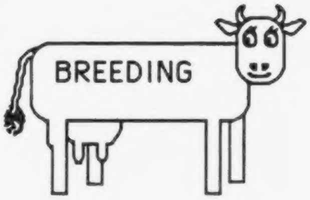


CURRENT ASSETS

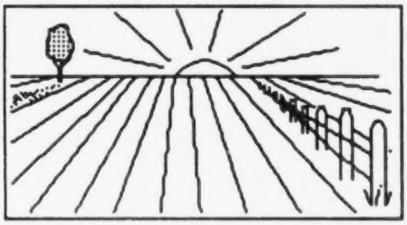
* Can readily be turned into cash!

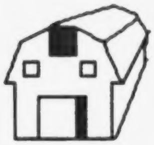


INTERMEDIATE ASSETS



Typically last from one to ten years before being sold or used up.





LONG TERM ASSETS

Land, buildings, etc. that have a life of longer than 10 years. Not usually sold during the life of the business.

FARM ACCOUNTING SYSTEMS

OBJECTIVES

Upon completion of this unit each farm family will:

1. understand the major record-keeping components used in farm accounting,
2. understand the uses for complete and accurate farm records,
3. select a record-keeping system based on their needs, desires and abilities, and
4. begin record-keeping activities which follow generally accepted accounting practices.

FARM
RECORD-KEEPING
FARM FAMILY

Prepared by Keith Rheault, Agricultural Education; Galen Herr, Graduate Student, Agricultural Ecomonics; William Edwards, Extension Economist; and Cynthia Needles Fletcher, Extension Specialist, Family Environment.

and justice for all
The Iowa Cooperative Extension Service's programs and policies are consistent with pertinent federal and state laws and regulations on non-discrimination regarding race, color, national origin, religion, sex, age, and handicap

Pm-1284b | December 1986

Farm Accounting Systems

Unit 2. TABLE OF CONTENTS

I. Farm Accounting
  The Case of the Brown Family
  Uses of Detailed Farm Records

II. Components of Detailed Farm Record-Keeping System
  Inventory Records
  Depreciation Schedule
  Income Records
  Expenditure Records
  Credit Records
  Labor Records
  Production Records
  Non-Farm Income and Expenditure Records

III. Financial Summaries
  Income Statements
  Cash Flow Statements
  Net Worth Statement
  Whole Farm and Detailed Enterprise Analyses

IV. Record Keeping Choices
  General Versus Detailed Records
  Cash Versus Accrual Accounting
  Manual Record Keeping Versus Computerized Systems
  The Farm Accounting Period
  Whole Farm Accounting Versus Enterprise Accounting

V. The Accounting Entity

VI. General Guidelines for Good Record Keeping

VII. Exercises
  2-1 Record-Keeping Selection Worksheet
  2-2 Evaluating Farm Record-Keeping Systems
  2-3 Evaluating Farm Record-Keeping Systems, Part 2

FARM ACCOUNTING

THE CASE OF THE BROWN FAMILY

John and Karen Brown has been farming for the past 15 years. For the first 10 years, they thought they were doing well financially. They could always come up with the money to pay debts when needed. It has only been the last five years they have been having an increasingly difficult time coming up with the money to pay debts. With the passing of every year, there seems to be less money than the previous year. Working with their lender, they discovered their net worth has been decreasing for the past five years. With this information, they began to wonder why this was happening and made a list of possible reasons for the continued decrease in net worth. The list includes the following:

1. poor yields
2. high interest rates
3. small litter sizes
4. high production costs
5. over investment in machinery and buildings
6. poor marketing strategy
7. high family living expenses
8. inefficient use of labor
9. declining land values

Can you help John and Karen determine the reason(s) for their problem?

What sort of additional information will you need to determine the source of the problem?

Can you analyze the Browns' problems if they provide you with a large box of cancelled checks and deposit slips from the last five years?

After studying the Browns' case one might easily determine that a detailed record-keeping system would help them solve their problem. While record keeping is viewed by many as being a somewhat dull, tedious job, most would agree that accurate records are essential in the successful operation of today's farm businesses.

USES OF DETAILED FARM RECORDS

A good set of detailed farm records provides the following benefits:

1. to provide basic information needed for income tax purposes;

2. to determine weaknesses and strengths for the farm business;

3. to evaluate the availability of funds for family living;

4. to support credit requests;
5. to determine farm earnings;
6. to supply data for future planning;
7. to preserve information about the business for future comparisons;
8. to determine which enterprises are most profitable; and
9. to help plan cash flow.

COMPONENTS OF DETAILED FARM RECORD-KEEPING SYSTEMS

Farm and family record-keeping systems can be looked at by considering each component of the system. Below is a brief description of the components of the farm record-keeping system.

INVENTORY RECORDS

A simple inventory record consists of a listing of all farm assets, such as grain, supplies, and livestock, and their values. A listing of farm liabilities, or debts owed, is also needed. A more detailed inventory record would include a list of non-farm assets and liabilities and their values, as well.

DEPRECIATION SCHEDULE

A depreciation schedule consists of a list of assets which meet the following criteria: (1) they are used to support the production process of the farm; (2) they have a limited but determinable useful life (more than one year); and (3) they wear out, become obsolete or lose value from natural causes. Farm machinery, equipment and buildings are common assets which are listed on the depreciation schedule. Depending on the year each asset is placed into farm service, all or part of the following may need to be included: cost of the asset, length of the cost recovery period, remaining value of the asset, method of depreciation used, depreciation or cost recovery for the year, and salvage value. The Internal Revenue Service has very specific rules for calculating depreciation, which are summarized in Publication 225, *The Farmer's Tax Guide.*

INCOME RECORDS

Farm income records list all farm-related income received from sales or other miscellaneous sources. Farm income can be separated into three general categories: (1) income from the sale or resale of crops, livestock or livestock products; (2) income from miscellaneous farm-related sources such as agricultural program payments, patronage dividends, payment for custom work, crop insurance proceeds; and CCC proceeds; and (3) income from the sale of capital assets (See *Farmer's Tax Guide*, Pub. 225, if you need more specific information).

EXPENDITURE RECORDS

Farm expenditure records list all farm-related expenses which support the production process of the farm. Items which qualify as farm expenses can be separated into two general categories: (1) ordinary farm operating expenses such as the purchase of seed, feed, supplies, etc. and fixed expenses such as taxes, insurance, and depreciation; and (2) expenses related to the purchase of capital assets such as machinery, equipment, land, breeding livestock, buildings and improvements. (See *Farmer's Tax Guide*, Pub 225, for more specific information).

CREDIT RECORDS

Credit records keep an accurate list of farm liabilities. Detailed credit records would include information on all existing loans, such as principal and interest payments made during the year, for unpaid principal balances, and interest owed. A record of any new loans made during the year should also be included.

LABOR RECORDS

Labor records are used to keep a list of the labor inputs used in the production process of the farm. Detailed labor records include information on all hired labor, such as the amount of time worked, total wages paid, and social security and income tax withholdings, and any other employee benefits paid by the farm business. A record of unpaid family labor inputs and quarterly IRS withholding payments made by the farm business are also included as a part of detailed labor records.

PRODUCTION RECORDS

Production records provide information about the production of crop and livestock enterprises. They include a list of all resources used or generated by each particular farm enterprise. Some of the common production records kept on individual livestock enterprises include: feed useage, livestock marketed, breeding record, labor used, animal births and deaths, livestock products marketed, pounds of production, and production expenses directly related to each specific livestock enterprise. Production records are often used to calculate efficiency factors, such as pounds of feed per pound of gain, and provide useful information to analyze specific farm enterprises.

NON-FARM INCOME AND EXPENDITURE RECORDS

Non-farm income and expenditure records consist of a list of all income and expenses which do not directly relate to the production process of the farm. Items which qualify as non-farm income include: non-farm wages or salaries; non-farm investment dividends or interest, rental income, gifts, inheritances, non-farm business expense reimbursements, and social security benefits. Items which qualify as non-farm expenditures are: family living expenses, non-farm investments, fines and penalities, and income taxes, inheritance tax.

Records which are kept and not used are a waste of time. Records which need to be kept and are not kept create a void when trying to make sound farm management decisions. Therefore, it is important that you understand how each record-keeping component is used when making farm financial management decisions.

The following four summary records can provide the information you need to properly analyze and plan farm business operations.

FINANCIAL SUMMARIES

INCOME STATEMENTS

An income statement is a financial summary that reflects the profitability of the farm over a specified period of time. An income statement is extensively used when analyzing the farm's profitability, efficiency and financial ability. It also provides information to prepare cash flow summaries and income tax returns. The income statement is sometimes referred to as a profit and loss statement.

Records needed to complete a farm income statement include: farm income records (both cash and non-cash), farm expenditure records (both operating and fixed), and inventory records. The total farm expenses are subtracted from gross income to arrive at net farm income for the accounting period.

CASH FLOW STATEMENTS

A cash flow statement is a financial summary of cash receipts and expenditures during the last accounting period (usually one year).

Records needed to complete a cash flow statement include: farm income and expense records; non-farm income and expense records; and credit records. An accurate cash flow statement provides the farm operator with information to develop a cash flow budget, a projection of the future cash flows.

NET WORTH STATEMENT

A net worth statement is a list of assets, liabilities, and net worth of the business. It provides a picture of the farm's financial position at one point in time. Normally, it is completed on the first day of the accounting period. When net worth statements from several years are compared, they provide information on the financial progress of the business.

Records that are needed to complete a net worth statement include: inventory records of farm and non-farm assets and credit (debt) records. Farm net worth is calculated by subtracting debts (liabilities) of the farm from assets owned by the farm. A financial statement may reflect only the farm business situation or it may include family or non-farm assets and debts as well.

WHOLE FARM AND DETAILED ENTERPRISE ANALYSES

Whole farm and detailed analysis records provide farm input information that help identify factors affecting the efficiency and profitability of the farm as a whole as well as individual enterprises. Analysis is useful in determining the strengths and weaknesses of the farm business.

Records needed to complete whole farm and detailed enterprise analyses include: farm income and expenditure records; inventory records; production records; and labor records. From these records, efficiency factors and measures of performance can be determined for the whole farm or individual enterprise. Examples include: gross revenue per person , rate of return on net worth; yield per acre; pounds of feed per pound of gain; machinery investment per acre; and livestock return over feed costs.

RECORD-KEEPING CHOICES

As you begin to establish a method of record keeping, several choices must be made. Is a cash basis or accrual method more appropriate? Should the records be kept manually or on a computer? When will the accounting period start and stop? These questions will be discussed in the following pages.

GENERAL VERSUS DETAILED RECORDS

How much detail in a farm accounting system do you need? Your decision should be based, to a large extent, on the expected uses of the farm accounting system. If the primary purpose of the records is simply to comply with tax regulations, then a fairly simple set of records will suffice. However, if management information about the costs and returns of a specific livestock enterprise is desired, for example, then a greater amount of detail is required.

The serviceablity aspect of a farm accounting system also needs to be considered. In other words, you must weigh the costs (both time and money) involved in keeping records with the benefits obtained from those records. There is a cost for every new record or account introduced to the system. The additional cost may be a direct dollar outlay or an indirect cost such as having less time available to do other things. This is called an opportunity cost and measures the cost of an activity in terms of what other activities must be given up to make the change. A new record should not be added unless it has an expected benefit that is greater than its opportunity cost. The prospective benefit for a particular record, however, can be difficult to measure because it will not be received immediately, but in the future.

CASH VERSUS ACCRUAL ACCOUNTING

The flow of income and expenditures can be measured using the cash method or the accrual method. Farm businesses are unique from a tax accounting viewpoint because the Internal Revenue Service allows them to operate on the "cash basis" accounting method. Nearly all other types of businesses are required to operate on an "accrual basis". Under the cash method entries are recorded when cash changes hands or when checks are written or received. A purchase is recorded when paid for, not when the commitment is made or when the product or service is received. A receipt is recorded when the funds are constructively received, not when the sale is transacted. With cash basis accounting, inventory changes are not included because they do not reflect cash transactions. Thus any increase or decrease in the inventory of crops and livestock has no impact on the income statement using the cash accounting method. The cash method also includes depreciation as an expense item although it is not an "out of pocket" cash expenditure. Using the cash method, net farm income is calculated as the difference between cash income and cash expenditures including depreciation.

The accrual method follows the principle that income should reflect the actual production and expenditure commitments made during each accounting period. Transactions that increase or decrease income are recorded when production occurs or when the expenditure commitment is made, not when cash changes hands. When using the accrual method, inventory changes of crops, livestock, and supplies are also included in the computation of net income. If these inventory items increase from the beginning to the end of the year, the accrual method recognizes this larger inventory as increased production and income during the current accounting year even though it has not yet been converted to cash. In contrast, a decrease in the value of inventory from the beginning to the end of the accounting period indicates that a larger volume of production was sold for cash during the year than was produced, thus decreasing net income.

The cash method provides a simpler method of reporting in which it is easier to recognize when transactions should be recorded. Fewer records are necessary, as inventory accounts need not be kept. However, inventory accounts are needed for business analysis and net worth statement preparation.

The main advantage of the cash method is in tax management. It provides great flexibility in shifting income and expenses between tax years. Income variation can be avoided or delayed and thus the resulting tax liability can be reduced. There is also the opportunity to avoid for a period of years the reporting of income retained in the business in the form of increasing inventories.

It is possible and sometimes preferable to report taxable net income on the cash basis and keep accrual method records for business management purposes. One way to accomplish this without keeping two separate sets of records is to use a "hybrid method". An example of a hybrid method would be to record all transactions for the year using the cash method and at the end of the year adjust for inventory increases or decreases. The true accrual net income is closely estimated because changes in inventories account for approximately 85 percent of the difference between cash basis net income and accrual basis net income, according to research done at the University of Illinois. Net income can be calculated even more accurately by adjusting for changes in several other noncash income and expense categories, as well.

The following items need to be incorporated at the end of the year when converting cash income to accrual income.

1) Inventories of crops, livestock, and supplies (do not include any depreciable assets, land, or cash).
2) Prepaid expenses (e.g. deposit on fertilizer not received) or pre-received income (e.g. advance deficiency payment).
3) Accounts payable and accounts receivable (not yet recorded under expenses or income).
4) Accrued interest expense not yet paid.
5) Value of home consumption produced on the farm.

Examples of Cash Versus Accrual Transactions

#1) Fuel is purchased and delivered in December 1986 but is not paid for until January 1987.
Cash method: Records the fuel purchase as a 1987 expense when it is paid.
Accrual method: Records the fuel purchase as an expense for 1985 when delivery was received. If a portion of the fuel is unused at the end of the year, it will be included as the ending inventory of supplies which will offset part of the expense claimed for 1986.

#2) Livestock is sold before the end of the accounting year on December 31, 1986, but the check is not received until after Janurary 1, 1987.
Cash method: Records the proceeds of the sale as income in the following year.
Accrual method: Records the sale of livestock on Dec. 31, 1986 as an income

item for 1986 regardless of when the check is received.

#3) Interest is paid on the farm mortgage on March 1 each year.
Cash method: Only the interest expense actually paid is recorded as a farm expenditure each year.
Accrual method: Interest which accumulates on the amount of debt owed from January 1 to March 1 is added to the interest which accumulates from March 1 to December 31 (on a smaller amount of debt).

MANUAL RECORD KEEPING VERSUS COMPUTERIZED SYSTEMS

Manual record keeping is considered by many to be a time-consuming, tedious task of posting and totaling numbers. Yet, a majority of farmers continue to use manual record-keeping systems for their farm records for several very good reasons. Manual record-keeping systems can usually be adapted to fit the exact needs of each farm, using as little or as much of the system as needed. They cost very little when compared to computerized systems and they can usually be kept with a minimal amount of training on the part of the farm bookkeeper.

Since the mid-1960s, commercial computerized accounting systems have been available for keeping records. This type of system usually requires the farm bookkeeper to mail cancelled checks and deposit records to a central computer processing center to be coded and processed, or has the farmer code the entries and then submit them to be processed. The financial data are usually summarized monthly and analyzed at the end of the year. Schedules for the income tax return may also be prepared.

Computers offer distinct advantages if the farm family is interested in detailed information about the numerous subparts of the business. The major drawback of this type of system is its high cost. The fees charged vary widely with typical charges ranging anywhere from $250 to $600 or more depending on the services provided and the volume of transactions processed. A well-kept manual record-keeping system in many cases will provide just as many benefits for a lower cost. The cost in time of learning to use a computerized system must also be considered. Other disadvantages associated with commercial computerized accounting systems are the rigidity with which data can be recorded and summarized, and the slow turn-around time from submission of data to the receipt of analysis. These services are designed to meet the needs of the typical farm situation. Farms that have specialized accounting problems will often have problems in effectively using this type of service. However, in any situation the benefits such as time savings or better management information should be weighed against the costs.

The introduction of the personal computer has rapidly changed the capabilities of computerized accounting systems. Farm accounting "software" can be selected to meet the specific needs of the farm business. Most farm accounting computer programs allow the farmer to design "chart of accounts". It should be noted that the amount of time required to record transactions is about the same as in a manual system, and more time is needed initially to learn how to operate the system. However, time is saved in the summarization process and errors are reduced. Generally the larger the farm business or the more detail required in an accounting system, the greater the advantage in using a computerized system over a manual system.

The major disadvantage of using a personal mircocomputer accounting system is the high initial investment in the computer hardware and software. It may be necessary to consider the benefits a microcomputer has to offer to the family as well as for farm accounting to justify the cost of owning one. Commercial computer services have an advantage over personal microcomputers in that they offer the ability to compare financial data with a large number of farms with the same characteristics.

A word of caution: computerized records are not a cure for poor records, nor are they a guarantee of good records. The output information is only as good as the record information that goes into the machine. The farm bookkeeper is still responsible for recording the information accurately and regularly. However, once the information is recorded in the computer memory or on electronic data storage media it can be manipulated. This relieves the bookkeeper of the many tedious aspects of farm record keeping such as posting, adding, subtracting, calculating, and preparing reports. In summary, if the manual accounting system seems to be lacking the detailed information needed for making good management decisions, and/or periodic summaries of accounting information are needed frequently during the year, then a computerized accounting system may be a better choice.

THE FARM ACCOUNTING PERIOD

The accounting period for most farm businesses is the calendar year. However, any other 12-month period may be used for summarizing records and filing an income tax return. In most cases, the accounting period should correspond to the production period. In Iowa, the calendar year works well because the year end occurs in the winter after the crop growing season has ended and comes when the farmer has more time available to spend taking inventories and completing records. Some farmers and businesses, however, prefer to use a fiscal year other than the calendar year. For example, many farmer cooperatives use a year end of August 31 because this is a time of low inventory levels and low business activity.

As farm businesses become more complex it is necesary to maintain greater financial control over the business. Summaries of business activities and records for periods less than a year, such as quarterly or monthly reports may be required to manage the operation effectively.

WHOLE FARM ACCOUNTING VERSUS ENTERPRISE ACCOUNTING

Whole farm accounting looks at the farm business in total with no effort made to identify precisely which parts of the business incur particular expenses or generate income. As an example, the total amount of labor used on the farm can be determined from whole farm business records. However, it is nearly impossible to determine how much labor was actually used for each particular enterprise, unless detailed enterprise labor records are kept. Furthermore, no attempt is made to value the resources used internally in whole farm accounting. As an example, the value of corn produced from the corn enterprise and fed to the feeder cattle enterprise is reflected only in the sale value of the feeder cattle.

Enterprise accounting separates the expenses and receipts of the individual enterprises within the farm business so that the profitability of each enterprise can be analyzed and compared. Enterprise accounting can be carried out on two different levels: 1) complete enterprise accounting, also called cost accounting; and 2) partial enterprise accounting. In complete enterprise accounting, detailed records are kept on all enterprises. In partial enterprise accounting, detailed records are kept on only a few important enterprises .

Dividing the farm operation into different enterprises requires transfer of "intermediate products" between enterprises. For example, the corn enterprise in effect "sells" grain to the hog enterprise. Enterprises can also be divided by function as well as by product. The corn enterprise can be separated into production and marketing enterprises. Then the corn production enterprise would sell its corn at harvest to the marketing enterprise. Some enterprises may be considered service enterprises which supply services to other enterprises. For example, labor or machinery enterprises charge wages or custom rates for services preformed to receive income.

Income and expense items not related to any specific enterprise can be categorized as "general" or "overhead" and then allocated among all enterprises. Transfers made between enterprises must be valued within the accounting system so that each enterprise's contribution to the whole farm net income is measured. In this way each enterprise is treated as a separate business with products and services being bought and sold from one to another.

Complete enterprise accounting allows the manager to compare profitability among the various lines of production being carried out. It also allows detailed cost comparisons with other farms producing the same products. Finally, knowing the cost of production for each product helps the farm manager set realistic marketing goals.

Partial enterprise accounting concentrates only on one or two major enterprises. Detailed production records are typically kept, along with financial records.

The benefits of enterprise accounting are directly related to the complexity and the diversity of the farming operation. Farms that have one or two major production enterprises and little flexibility to adjust output and input options may find little benefit to an enterprise accounting system.

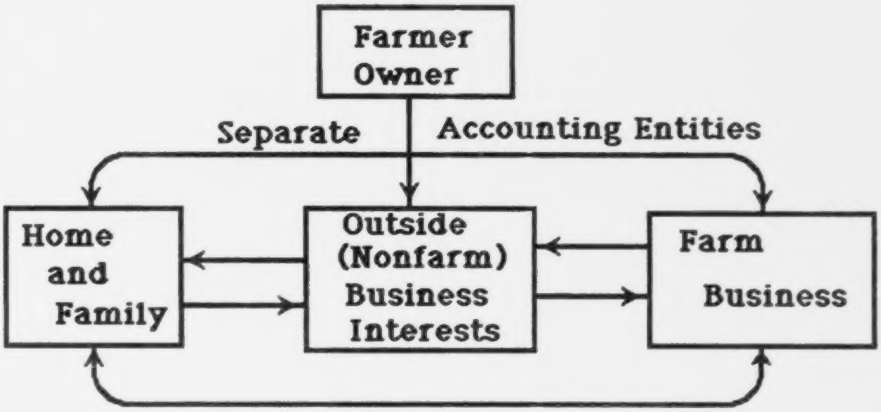
THE ACCOUNTING ENTITY

The design of any accounting information system must be based on the entity concept. This concept involves the separation of the farm business from the home and family or other outside business interests of the owner. In other words, the home and family form a separate accounting entity from the farm business. Separate sets of records are maintained for each separate entity, with no intermingling of transactions between entities.

Identifying which financial transactions properly belong to each entity may be difficult at first. The use of a separate checking account for the farm business with periodic family living expense withdrawals transfered to your personal/family checking account will help prevent the intermingling of transactions.

Even though accounting entities should be kept separate, it may be useful to consider them together in total on occasion. A combined cash flow budget, for example, that includes all transfers between the farm business and the family, may give the most realistic picture of credit needs repayment ability.

DIVISIONS AND RELATIONS OF FARM AND FAMILY RECORD-KEEPING ACTIVITIES



"Transfers between Entities"

GENERAL GUIDELINES FOR GOOD RECORD KEEPING

Listed below are general guidelines for good record keeping:

Good records are kept by establishing a person as being the primary person "in charge." Determine who this person will be. One person in the family can be responsible for keeping all the records or responsibilities can be shared among family members. If this is the case, each family member must know exactly which records they will be expected to keep As an example: Family member #1 will keep all income and expense records, credit records and labor records. Family member #2 will keep the inventory records, depreciation schedule and production records. If it is decided that the record-keeping responsibilities are shared, one family member should be designated as being the person "in charge" to oversee that all records are maintained properly.

Secure a place to keep the records. Some portion of the house should be set aside as the office center where all record-keeping work for the farm and family can be done. Nothing elaborate is needed. The work area may be a desk in a bedroom or a file cabinet and table in the basement. The work area should provide a place where you can think and work without interruptions.

Develop a plan for keeping records. Set a specific time each week or month for posting records. Mark incoming bills as to when they must be paid. You may want to keep separate folders for those due in different time periods. Most receipts and expenditures can be entered directly from monthly bank statements and cancelled checks.

Have separate checking accounts for the business and personal/family use. Keep business income and expenditures separate from personal income and expenditures. Run all income and expenses through the checking account. When purchases are made, save all receipts and enter into the record system.

If you use a record book, follow the specific instructions given in your record book. Always go through all the steps of each transaction before beginning another. In some systems the receipts and expenditures are first entered into a cash transaction journal. In others they are entered directly into individual accounts. Do periodic accuracy checks by reconciling your bank statements on a monthly basis. Never net a transaction out. Always use the total or gross amount of the income or expenditure item.

Develop a system to store all bills, receipts and other papers once they have been posted in the records. A filing cabinet or some similar piece of equipment should be strongly considered as a necessary investment to keeping good records. The system should be developed so that the papers can easily be found and retrieved. Files should be divided into categories that make sense for the records you are keeping. This may include separate files for each of the major components or it could include very specific files within categories. All papers should be filed immediately after posting. This avoids the loss of papers which have accumulated and have not been filed.

RECORD-KEEPING SELECTION WORKSHEET

EX 2-1

Please respond to the following questions. Your answer will help you determine the type of records to keep to best fit your situation.

1. We (I) are willing to spend _________ hours per week keeping farm records.

2. Our (my) record-keeping abilities at the present time can best be described as:

   _____ Very limited, no actual experience
   _____ Able to complete basic record-keeping activties
   _____ Very skilled in all areas of record-keeping

3. We (I) would like to use our records for: (Check as many as needed)

   _____ Income tax purposes
   _____ Completing a farm financial statement
   _____ Completing a farm income statement
   _____ Completing a farm cash flow statement
   _____ Completing whole farm and detailed enterprise analysis

   Refer to the chart on page 2-15 listing the specific records needed for each of the five response categories listed in Question 3. Use this to complete Question 3.

4. Does your time commitment per week and your record-keeping ability seem adequate based on your responses to Question 3?

   _____ Yes
   _____ No

   If your answer is "No" to Question 4, what adjustments are you willing to make? (check one)
   _____ Increase amount of time spent keeping records per week
   _____ Acquire additional record-keeping skills
   _____ Eliminate some of the intended uses for our (my) farm records. Please list which ones:

   ____

   ____

5. In the space below, please list the types of records that you will be keeping. Use the chart on page 2-15 as your guide.

Records Needed to Complete the Major Farm Financial Summaries

	Farm Financial Summaries				
	Income Tax Returns	Income Statement	Cash Flow Statement	Net Worth Statement	Whole Farm and Detailed Enterprise Analysis
Financial Transactions					
Farm Income	×	×	×		×
Farm Expenditures	×	×	×		×
Nonfarm Income	×		×		
Nonfarm Expenditures	×		×		
Detailed Inventory					
Farm Liabilities	×	×		×	×
Depreciation Schedule	×	×			×
Farm Assets		×		×	×
Nonfarm Assets				×	
Nonfarm Liabilities				×	
Production Records					
Feed Records					×
Livestock Outputs					×
Livestock Expenditures					×
Crop Outputs					×
Crop Expenditures					×
Labor Records					
Operator Labor					×
Family Labor					×
Hired Labor	×	×	×		×

EX 2-2

EVALUATING FARM RECORD-KEEPING SYSTEMS

General Information

Selecting the most appropriate record-keeping system for your situation can be a challenging. Many variables need to be considered when making your decision. Two evaluation exercises are included in this section to aid you in making a decision. Together the two exercises provide a general evaluation of overall qualities, capabilities and limitations of the system.**

Instructions for Evaluation Part 1

Answer each question by placing a check in one of the three response columns for each question (Yes, No, Can't Determine). Base your responses on the physical and written evidence provided by the system and any other information you can obtain about the system. (Note: Not all questions may apply to your situation. Please omit those that do not). When you have finished answering all of the questions, note which ones have been answered "no" or "can't determine". Decide whether or not the limitations will hinder the effectiveness of the system for your situation. If the system seems adequate, proceed to Evaluation Part 2 for a more specific test. If the system is inadequate, do not complete Evaluation Part 2.

**Adapted from *"Selecting a Farm Business Record System,"* by R. A. Luening and R.M. Klemme, University of Wisconsin Extension Service, 1982.

Exercise 2-2 Part 1, continued	Yes	No	Can't Determine
1. Reliable and readily accessible to the user.	______	______	______
2. System periodically updated to meet current tax laws and changing user needs.	______	______	______
3. System is designed for keeping enterprise records which are similar to the user's own farming situation.	______	______	______
4. System is affordable.	______	______	______
5. System is flexibly designed with enough blank forms provided (or available) to meet the users specific needs for one complete accounting period.	______	______	______
6. System provides for cash and/or accrual accounting.	______	______	______
7. System provides for single and/or double entry.	______	______	______
8. System allows for user specified fiscal year.	______	______	______
9. System is functional in regard to the users type of farm business organization (sole-proprietorship, partnership, corporation, etc.).	______	______	______
10. System provides forms for the major farm financial summaries which are coordinated with the general record-keeping forms in the system.	______	______	______
11. System provides clear, concise user instructions which are well indexed.	______	______	______
12. System provides the user with a trouble shooting guide or the abiltiy to do cash accuracy checks.	______	______	______
13. Overall format of the system is well designed with easy to read print and appropriate column sizes and headings.	______	______	______
14. System provides consistent format for keeping farm and family records.	______	______	______
15. System provides for an overall analysis of farm and family finances.	______	______	______

EVALUATING FARM RECORD-KEEPING SYSTEMS, PART 2

Instructions for Evaluation Part 2

The following are a number of test entries by transaction which may be entered for a farm business. The intent is not to play "stump the record system". Not every system can handle every test entry. The purpose of the list is to provide you with a variety of common farm transactions which can be used to test a particular farm record system's capabilities and limitations. All of the transactions listed below do not have to be used to test a particular system. Decide which entries are high priority items and which are low priority items, using the transactions which are common to or are important in your farm situation. If the system's vendor is available, have him/her enter the transactions you have selected into the record system. If the vendor is not available, try to enter the transactions you have selected on your own. Base your evaluation of the system not only on how many entries can be made into the system but also on how easy it is to find and record the transactions into the system.

EXAMPLE TRANSACTION ITEMS

Item #	Description
1.	You sold 1000 bu. soybeans to J. J. Jones,Inc. grain dealer at $7.50/bu. Received check for $7,500.
2.	You purchased "held for sale" feeder pig died. Purchased the tenth month of the prior accounting year for $50. Purchase weight 45 lbs. Dead weight 125 lbs.
3.	You sold purchased dairy cow (Pail Kicker) to Don's Dairy Demise. Cow was purchased 25 months ago for $1000. Cow was five year class property and in year 1, $150 of depreciation was taken and in year 2, $220 of depreciation was taken. The cow weighed 1,300 lbs. and sold for a gross of $650. Marketing charges were $3.25 with $9.75 trucking charges. Net check was $637.
4.	You sold 1000 bu. corn to ABC Coop fob farm at $3/bu. Received check for $3,000. This corn was under C.C.C. loan for $2,500 and was reported as income in the prior year. The corn was redeemed from C.C.C. on February 20 of this year.
5.	You sold 10 raised hogs to Packers Inc. @220 lbs/head or 2,200 lbs. @56 cents/lb. Marketing charges were $6.16 with trucking charges of $15.84. Net check was $1,210 and the gross amount was $1,232.
6.	You sold raised beef cow (Blocky) to Carl's Cow Carnage @ 1,000 lbs. @ 56 cents/lb. for $560 gross amount. Marketing charges are $2.80 with $7.20 hauling. Net check is $550. Held 26 months.

Item # Description

7. You purchased a dairy cow (Milky One) from Don's Desired Disposal auction service for $1,500 with Check #1.

8. Your patronage dividends from XYZ Coop is $500. You received $100 cash. Ten percent of the dollar volume of the business done with XYZ was for personal expenses.

9. You had hail damage on your corn which reduced the crop and you received $1,000 insurance from the Hale and Hearty Ins. Co. for damage.

10. You combined corn for your friendly neighbor Joe Friendly and received a check for $750.

11. You had a $500 gain on a 5000 bu. corn commodity futures contract which was a true hedge. You paid out $50 (check #2) in commission, had put in $1,000 (checks #3, 7, 9) in margin money. You sold for $15,000 and bought back the contract for $14,500.

12. You paid Jack Law $200 attorney fees for services rendered. Check #4.

13. You paid the Alky Gas Co. $1,000 for gasoline (1,000 gals) and $900 for diesel fuel (900 gals). Check #5.

14. You paid Current Electric Co. $200, Check #6 out of the farm checkbook for this month's electric bill. Twenty-five percent of the amount was for personal home use.

15. The phone bill from Ma Bell is $35 for this month. The base rate is $12 and you had $5 of personal long distance calls and $10 of business long distance calls. The extension phone in the farm's office cost $8 per month. Check #8.

16. You paid self employment Social Security taxes and income tax on your farm income and other income in the amount of $2,500 using check #10.

17. You receive $10,000 for a partially destroyed machine shed from the Wicked Wind Insurance Co. The shed had a $15,000 basis and you spent the $10,000 payment on the repair of the shed to Fix-It Construction Co. Check #11

18. You paid USED Parts Company $150 for mower repairs, Check #12.

19. You purchased 100 50-lb. feeder pigs for $4,500, Check #13 from Paul's Pig Palace. Trucking to the farm cost an additional $250.

20. You paid Rollie Rolling acres, your part-time farmer neighbor, $1,500 cash rent for his 30 acres of cropland. Check #14.

21. You paid the XYZ Coop $5,000 for $1,200 of dairy feed, $800 hog feed, $1,000 seed, $1,500 fertilizer and $500 for baler twine. Check #15.

22. You paid Pete's Purveyor of Powerful Pesticides $1,500 for herbicides and insecticides to be used on the crops. Check #16.

Item # Description

23. You paid Dr. Post Mortem, $350 Check #17, for veterinary service.

24. You paid the Angus Breeders Association $60 for registration and transfer fees, Check #18.

25. You paid Carl's Corn Condominium $500 for storing your surplus corn using Check #19.

26. You paid to Terrific Township $3,000 real estate taxes and $500 personal property taxes. The farm personal residence represents 15% of the value of the farm real estate. Check #20.

27. You paid Paul's Perfect Protection Ins. Co. $500 for insurance on the farm buildings. The house represents 20% of the total insured value. Check #21.

28. You borrowed $8,000 from the Friendly Finance Co. for 8 months at 11% interest.

29. You paid your 14-year-old son wages of $100, Check #22, for one month. You are a sole proprietorship.

30. You pay your hired help $24,000 annually and withhold $1,500 for S. S. tax purposes. You also contribute $1,500 for S. S. taxes. The wages are paid monthly while the S. S. tax (withheld amount and employer's contribution) are made quarterly. Monthly hired labor gets a $1,875 check and quarterly S. S. gets a $375 check. You also pay $65 for hired labor health ins. premiums monthly.

31. You paid your neighbor Sam Bean $700 for combining soybeans for you. Check #23.

32. You paid $2,000 interest to the Usurious Loan Co. for the mortgage on the farm real estate. Your personal residence represents 15% of the total value of the farm real estate. Check #24.

33. You won $1,000 worth of fertilizer for use on your farm at Lucky Casino Elevator's grand opening.

34. You built a concrete structure for soil and water conservation purposes which cost $1,000 and received a check from the Federal government for $400 for cost sharing. Paid with Check #25.

35. You received a credit of $200 as a Federal gas tax credit and a credit for lubricating oil of $5.

36. You paid Len's Land Leveling $1,000 for clearing a piece of land so that crops can be grown on that land. Check #26.

37. You purchased a new Pullmore tractor from the Iron & Paint Co. for $50,000. The old tractor which was traded still had a $5,000 adjusted tax basis. Check #27.

Item # Description

38. You sold milk to Milky Dairy 47,000 lbs @ 13 cents for $6,110. Test 3.7, 12 cents differential. Deductions: Milk house supplies $85, hauling $235, life insurance $50, health insurance for hired labor $65, A.D.A. $25, milk check assignment $1,840. Net check $3,860. Total deductions $2,250.

39. You received patronage dividends from Milky Dairy of $200.

40. You paid Ollie's Office Outlet $75 for farm office supplies. Check #28.

41. You paid Farm Management Service $500 for management consulting and tax preparation. Check #29.

42. You paid the Usurious Loan Corp. $5,000 principal on farm debt. Remaining balance is $40,000. Interest rate is 10%, 20-year loan.

43. Your farm corporation purchased $10,000 worth of stock from a deceased stockholder's estate. Check #31.

44. You butchered one steer for home consumption. It weighed 1000 lbs with a market value of $550.

45. You used 340 bu. of homegrown corn as feed for your feeder pigs for the month.

REFERENCES

Farm Accounting and Business Analysis, by Sidney James and Everett Stoneberg, ISU Press, 1986.

Managing the Farm Business, by Stephen Harsh, Larry Connor and Gerald Schwab, Prentice-Hall, Inc., Englewood Cliffs, New Jersey, 1981.

Farm and Ranch Management Education, Volume1, by Edgar Persons and James Warner, University of Minnesota, St. Paul, Minnesota, 1977.

Coordinated Financial Statements for Agriculture, by Thomas Frey and Danny Klinefelter, Agri Finance, Skokie, Illinois, 1980.

Farm Management, by Michael Boehlje and Vernon Eidman, John Wiley & Sons, Inc. 1984.

Farmer's Tax Guide, Publication 225, Internal Revenue Service, published annually.

"Money Mechanics: Record Keeping," PM 934a, Cooperative Extension Service, Iowa State University, 1984.

"Organizing the Farm Business," PM 878, Cooperative Extension Service, Iowa State University, 1983.

Farm account books and software packages (A variety of these materials should be available for examination)

FARM ACCOUNTING SYSTEMS

OBJECTIVES

Upon completion of this unit each farm family will:

1. understand the major record-keeping components used in farm accounting,
2. understand the uses for complete and accurate farm records,
3. select a record-keeping system based on their needs, desires and abilities, and
4. begin record-keeping activities which follow generally accepted accounting practices.

FARM
RECORD KEEPING
FARM FAMILY

Prepared by Keith Rheault, Agricultural Education; Galen Herr, Graduate Student, Agricultural Ecomonics; William Edwards, Extension Economist; and Cynthia Needles Fletcher, Extension Specialist, Family Environment.

INTEREST APPROACH

Refer to the hypothetical case of The Brown Family on page 2-2. Provide enough time for the participants to read the case and then solicit responses from the group concerning the questions asked on page 2-2.

TEACHING OUTLINE

Materials Needed	Approximate Time (min)	Activity	Reference Page
	5	Discuss how detailed farm records can be used by asking the uses participants presently make of their farm records.	2-3
TM 2-1	10	Discuss the various components of a detailed record-keeping system. Provide a brief description of the common components found in most detailed farm and family record-keeping systems. Ask participants what components of their present records system are most useful and why.	2-4 to 2-5
TM 2-2	10	Discuss how each of the various record-keeping components are used to create farm financial management summaries. Explain the general make-up and type of information included on the four financial management summaries.	2-6
TM 2-3	15	Discuss decisions about accounting practices which need to be made before beginning record-keeping activites.	
		Include specific information on the advantages and disadvantages involved with the use of each accounting practice.	2-11
EX 2-1 TM 2-4	20	Have participants complete the record-keeping selection worksheet exercise.	2-14
		Note: the records that each farm family decides to keep should ultimately be based on the intended uses for the records and should be consistent with the participants' skills and desires to keep such records.	

TEACHING OUTLINE (continued)

Materials Needed	Time (min)	Activity	Reference Page
TM 2-5	10	Discuss "Good Record-Keeping Habits."	2-12
EX 2-2	30	Have the participants complete the record-keeping evaluation exercies, Part 1. The intent of the exercises is not to select a record-keeping system for the participants, but rather to provide them with a systematic approach to evaluating record systems. This will aid them in selecting a system on their own. If possible, secure enough copies of a single record-keeping package so that all participants would be evaluating the same material.	2-17

OPTIONAL ACTIVITIES

If participants have the time they may continue to work on Exercise 2-3.

Provide a number of good record-keeping packages available for farm families to examine on their own.

If the opportunity exists and the participants are interested, demonstrate record keeping on a computerized software program.

ON-FARM ACTIVITY

Participants should now select and set-up their own record-keeping system and start keeping records if not already doing so. Give participants help as needed in this initial selection and set-up phase of their record-keeping program.

EVALUATION

Participants may wish to use Exercise 2-2 to evaluate the record-keeping system they have selected.

The evaluation of this unit would be more appropriate after the participants have entered one to two months worth of records in their recording system.

SUPPORT MATERIALS

Farm Accounting and Business Analysis, by Sidney James and Everett Stoneberg, ISU Press, 1986.

Managing the Farm Business, by Stephen Harsh, Larry Connor and Gerald Schwab, Prentice-Hall, Inc., Englewood Cliffs, New Jersey, 1981.

Farm and Ranch Management Education, Volume 1, by Edgar Persons and James Warner, University of Minnesota, St. Paul, Minnesota, 1977.

Coordinated Financial Statements for Agriculture, by Thomas Frey and Danny Klinefelter, Agri Finance, Skokie, Illinois, 1980.

Farm Management, by Michael Boehlje and Vernon Eidman, John Wiley & Sons, Inc. 1984.

Farmer's Tax Guide, Publication 225, Internal Revenue Service, published annually.

"Money Mechanics: Record Keeping," PM 934a, Cooperative Extension Service, Iowa State University, 1984.

"Organizing the Farm Business," PM 878, Cooperative Extension Service, Iowa State University, 1983.

Farm account books and software packages (A variety of these materials should be available for examination)

Major Components of Detailed Record-Keeping Systems

1. **Inventory Records**
2. **Depreciation Records**
3. **Income Records**
4. **Expense Records**
5. **Credit Records**
6. **Labor Records**
7. **Production Records**
8. **Non-Farm Income Records**
9. **Non-Farm Expense Records**

Financial Management Summaries

1. **Income Statements**
2. **Cash Flow Statements**
3. **Net Worth Statements**
4. **Whole Farm & Enterprise Analyses**

Record-Keeping Decisions

1. **Time**
2. **Ability**
3. **Needs**
4. **Desires**

Accounting Related Decisions

1. General Versus Detailed Records
2. Cash or Accrual Basis
3. Manual or Computerized System
4. Accounting Period
5. Whole Farm or Enterprise Analysis
6. Accounting Entities

Good Record-Keeping Habits

1. Who is the Record Keeper ?
2. Where should the records be stored ?
3. When are the records to be posted ?
4. What records should be kept ?
5. Why are the records being kept ?

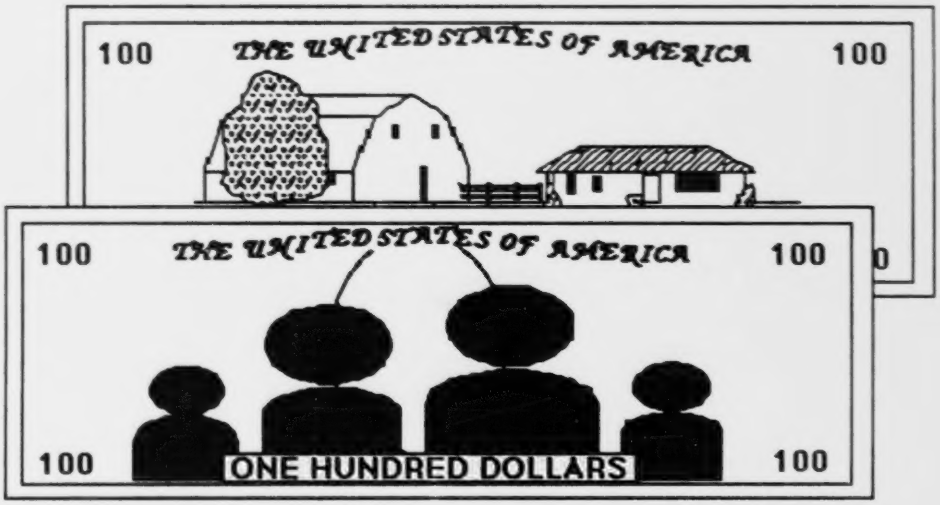
FAMILY RECORD KEEPING

Family Cash Flow Statements and Methods of Keeping Records

OBJECTIVES:

Upon completion of this unit, each farm family will:

1. become aware of the importance of recording family income and expenditures,
2. understand how to set up a cash flow statement for the family,
3. learn various methods and procedures for keeping track of family income and expenditures,
4. select a record keeping system according to their own family needs and to their "bookkeeping temperament," and
5. review the interrelationship of the cash flow statement, the cash flow budget and the net worth statement.


100
THE UNITED STATES OF AMERICA
100
100
THE UNITED STATES OF AMERICA
100
100
ONE HUNDRED DOLLARS
100

Prepared by Mary M. de Baca, Temporary Assistant Professor, Family Environment; Cynthia Needles Fletcher, Extension Specialist, Family Environment; and William Edwards, Extension Economist.

and justice for all
The Iowa Cooperative Extension Service's programs and policies are consistent with pertinent federal and state laws and regulations on non-discrimination regarding race, color, national origin, religion, sex, age, and handicap.

Pm-1284c | December 1986

Family Record Keeping

Unit 3. TABLE OF CONTENTS

I. The Importance of Cash Flow Statements

II. How to Prepare a Cash Flow Statement
  Income
  Expenditures
  Net Income or Loss

III. Keeping Track of Your Income and Expenditures

  Methods
    Keeping Receipts
    Check Register Method
    Journal and Ledger Methods
    Computerized Record Keeping
  Procedures for Setting Up a Chart of Accounts
    Identifying Categories Useful to You
      Recording Credit Purchases
      Recording Debit Cards Transactions
      Recording Family "Savings"
    Tax Preparation and Management
    Preparing a Cash Flow Budget
    Comparing from Year to Year

IV. Bookkeeping Temperament Profile

V. Evaluating and Analyzing Cash Flow Records
  Evaluating Your Method of Tracking Your Family Cash Flow
  Analyzing Information from Your Cash Flow Statement
  Evaluating the Cash Flow Statement in Relation to Cash Flow Budget
  Evaluating the Relationship Between the Cash Flow and the Net Worth

VI. Summary

VII. Glossary

VIII. Appendix: Chart of Accounts

Exercise 3-1 Relationship of Cash Flow Statement and Net Worth Statement
Exercise 3-2 Evaluation of Unit 3

Unit 3: FAMILY RECORD KEEPING

I. THE IMPORTANCE OF CASH FLOW STATEMENTS

Does your income evaporate before all the bills are paid? Do you wish you could save money to take a family vacation but all your funds seem to go for everyday living expenses? Does your farm lender expect you to estimate the amount of income needed for family living?

A *FAMILY CASH FLOW STATEMENT* is a record of the flow of family income and flow of expenditures for family living over a certain period of time. A cash flow statement can help you distinguish where your income comes from and where it goes. By recording your sources and amounts of income and expenditures during the year, you can determine if you are making progress toward family goals. Information from the cash flow statement can be used as a basis for planning future spending patterns.

The objective of the *FAMILY CASH FLOW STATEMENT* is not to determine profitability, or to criticize past actions, but rather to show whether you were able to live within the family income while providing for family needs and wants. The purpose of the statement is the same as for the farm cash flow statement --to identify the income and outgo over a given period.

Unit 3 addresses how to prepare a family cash flow statement, methods and procedures of tracking income and expenditures, bookkeeping temperament, and the relationship of the cash flow statement to other financial reports. Unit 6 deals with cash flow budgeting--planning future spending for both family living and the farm business.

The family and the farm business operate separately yet jointly. Likewise, records are more helpful if kept separately for the family while also incorporating family income and expenditures into the overall farm-family recording."Family Living" comprises one of the categories of the overall farm-family cash flow recording. Why is it important to distinguish income or outflow for family living?

CASH FLOW STATEMENTS help a family:

identify the source, amount and timing of income
see where the income went and when it was spent
evaluate net income or net loss
review when credit was used
prepare income tax returns
adjust net worth statements
determine if family satisfactions were maximized by cash inflow and outflow
prepare a cash flow budget for future periods

II. HOW TO PREPARE A CASH FLOW STATEMENT

A *CASH FLOW STATEMENT* consists of three sections: 1) income--total income received; 2) expenditures--total expenditures made; and, 3) net income or loss--the difference between total income and total expenditures. These three components are the same whether you set up your own cash flow recording system or use a prepared cash flow recording system.

Income

You may have income from a variety of sources. Income may come only from farm production; or it may come from farm production and off-farm employment, self employment other than farming, rents, interest, dividends, commissions, child support, gifts, and other sources. It is estimated that nationwide, off-farm income now accounts for about 60% of the total income of farm families.

It is important to note the amount of all income received by the family from all sources and to identify when income was received. Especially important to farm and family financial management is separation of farm income which is used for the farm enterprise and farm income which is used for family living. On the family cash flow statement, funds for family living which come from the overall farm-family account will appear as income whereas on the overall farm-family cash flow statement those funds will appear as an outflow or expenditure to "Family Living."

Expenditures

Expenditures are outflows of income that sustain your life style. Categorizing expenditures as fixed and flexible may be useful to you not only when using your *CASH FLOW STATEMENT* as a basis for budgeting, but may also be essential on a loan application. Fixed expenditures are more difficult to change than flexible expenditures.

Fixed or regular expenditures include:

1) predetermined monthly commited amounts (mortgage, car loan, contract obligations, and court-ordered payments);
2) fixed occasional expenses (car licenses, insurance payments, taxes, tuition, and memberships);
3) regular expenses which vary monthly (utilities, telephone, and interest payments);
4) and expenses which a family may view as fixed once decided on (personal allowances and savings).

Flexible expenditures, those over which you have more control, include:

food, personal maintenance, clothing, housing supplies, household furnishings, charitable contributions, health care, gifts, transportation, recreation, off-farm work expenses and education.

Outflows can also be designated as expenditures for family living and expenditures as investments for family living. Family living expenditures are for goods and services which are consumed, which typically reoccur frequently and which do not change the net worth position of the family. Food, personal care, home maintenance or rent, and recreation are examples of expenditures for family living. Expenditures classified as investments for living include those which normally last for several years, as opposed to food which is used up quickly. Improvements made to the home, automobile payments, liquid savings and family investments are expenditures made by the family that appear as assets on the net worth statement.

Certain categories of expenditures may appear on the Overall Farm-Family Cash Flow Statement rather than on the Family Cash Flow Statement. Property and liability insurance, life insurance, property tax, income tax, self-employment tax, and debt repayment will appear on the overall farm-family cash flow statement if they are expenses related to the farm business. Some such categories could appear on both statements, i.e. income tax paid on farm income would appear on the overall farm-family cash flow record while income tax paid on off-farm income used to support the family would appear on the family statement.

There is no set list of categories to be used in the expenditure section of the *CASH FLOW STATEMENT*. Choose prepared cash flow statements which have listed categories most suitable to you or create your own category labels.

Net Income or Loss

Net Income (or Loss) is the amount remaining after expenditures are subtracted from income. With a net income, funds may be set aside for additional savings, for investing back into the farm business, or for diversifying investments. A net income on the cash flow statement may reflect too large an allowance drawn from farm income for the purpose of family living which could have been better used for the farm enterprise. With a net loss or deficit, you are not living within the present income. Perhaps you have underestimated the amount of income needed to meet basic family needs. Or perhaps you need to practice sound or even drastic management measures to avoid financial problems. An example of a *CASH FLOW STATEMENT* for a three-month period showing income, expenditures, and net income (or loss) is shown on page 3-6. An annual family cash flow statement is prepared from monthly records.

Sources of Information for the Cash Flow Statement

Every check written, receipt received, payment made and check received as income provides a source of information for the family and overall farm-family cash flow statements. Specific sources include invoices, statements, canceled checks, receipts, pay records, checks received, deposit slips and other payment books or records. Transactions are often recorded in a transaction journal showing day to day activity; and/or in a general ledger which shows each transaction according to category of income or expenditure. From this ledger comes the summary of cash flow by month and for the year.

FAMILY CASH FLOW STATEMENTS vary in detail depending on who is preparing the statement and the use made of it. The more you earn and spend, the more detailed or involved the recording becomes. Strive for a simple, convenient bookkeeping system. Bookkeeping should not be the tail that wags the dog. Regardless of the detail or length of the statement, the purpose is always the same--to summarize the income received and the expenditures made during a given period of time so that you can assess your progress toward family goals.

CASH FLOW STATEMENT

________________FAMILY 198_

	JAN.	FEB.	MAR.
INCOME			
Farm	1,500	1,500	1,500
Nonfarm		550	
Total Income	1,500	2,050	1,500
EXPENDITURES Family Living			
Food Purchased	272	312	331
Clothing	310	-	10
Personal Care	60	101	55
Household Maintenance	146	142	620
Rent	-	-	-
Health	128	128	333
Recreation	30	65	30
Education	440	15	12
Charity, Gifts	80	185	108
Auto	97	93	90
Other			
Total Living Expenditures	1,563	1,041	1,589
EXPENDITURES Investment for Living			
Home Improvement	-	498	-
Auto Purchase	60	70	60
Savings	-	-	-
Total Investment	60	568	60
Total Living Expenditures	1,623	1,609	1,649
NET INCOME OR DEFICIT	-123	441	-148

III. KEEPING TRACK OF YOUR INCOME AND EXPENDITURES

Methods

There are a variety of methods of keeping track of family and farm income and expenditures. Each family must decide if the system is worth the cost of time, effort, or money expended for keeping records. The method you select may depend largely on your "bookkeeping temperament" and the need you have for recorded information. The most commonly used methods, which are listed from simple to more complicated, include:

1. Keeping receipts
2. Using check book registers
3. Recording on journals or ledgers
4. Computerizing records

1. KEEPING RECEIPTS

Tax preparers often call keeping receipts the "shoe box" method when describing how proof of expenditures are presented at tax time. With this method a drawer, a calendar with pockets, a shoe box, a desk organizer, a clipboard in the pickup, or other containers are used as the receipt collectors.

At the end of each period (week or month) the receipts are totaled for each income or expenditure category and can easily be recorded on a monthly summary.

To make this system functional, identify the category of expenditure on receipts before storing them. If no receipt is given for cash purchases, make your own substitute receipt. All family members can participate by storing receipts, adding up totals at the end of the period, and recording totals in a notebook or ledger. Such a summary provides a good overview of the activities for each month and for the year. Credit card receipts will be available to compare with the billing statement with this method. With the "shoe box method" or any system, it is important to provide and record personal allowances to family members on a regular basis from which they can meet their personal expenses.

Income from a variety of sources can also be identified in the same manner. The "shoe box" method of keeping receipts may help families openly communicate concerning money management. It may be an appealing method to a person who is not inclined to detailing income and expenses on a daily basis and who prefers a minimum amount of paper work. This is not a good method for quick verification or analysis of enterprises.

The receipt method may be a beginning step in record keeping. This method may be combined with other record keeping methods to make it more effective and to cut down on duplication of paper work.

2. CHECK BOOK OR CHECK REGISTER METHOD

Keeping separate checking accounts for farm and family finances is highly recommended. One method of record keeping which works well for both farm and family is the checkbook method. If most expenditures are paid by check, and most income deposited to checking accounts, the check register can serve as a basis for end of the month summaries for all income and all expenditures.

For this system to work successfully, each check or deposit must be well identified on the check register. Besides the date, amount, and to whom written, or from whom received, a notation of the category of income or expenditure should be included on the register. Effectiveness of check register record keeping can be extended if used to record cash income or expenditures or credit card use (example p. 3-9) even though they do not affect the bank balance.

At the time you reconcile the check register with the bank statement also group categories together and write the total amounts for each category of income and expenditures in a notebook or ledger to summarize the period.

Farm couples usually try to work out a system whereby both can write checks but still keep a running balance on their checking account(s). With this method of record keeping, it is important that all check writers identify the source of funds, of deposits, and identify the category of each expenditure. If preauthorized payments are made directly by your bank for an expenditure, they will need to be recorded as well.

To make this system workable, the family may want to use checks made out for cash to provide family members with personal allowances as well as for small household expenditures.

3. JOURNAL AND LEDGER METHODS

Keeping a daily record of income and expenditures is another method of CASH FLOW STATEMENT recording. Whether you devise your own form, use ledger sheets, or keep a daily journal or ledger in an account book, the objective is to record income and expenditures as they occur. All family members can assume responsibility for this recording, although one family member might assume responsibility for summarizing at the end of the period.

A **transaction journal** is a chronological listing of income and expenditures. Transaction journals in account books generally provide space for a description and identification of each expenditure and income entry. A **daily log,** shown on 3-11, combines the chronological recording with a breakdown of income and expenditures by categories, although it has no space for transaction descriptions. This simple log can be posted in a prominent place in the kitchen or bookkeeping area for all family members to record their income and expenditures. Even this simple method might alert the family to impulse buying, extensive credit card use, cash that disappears easily, or checking account problems. This may be a good beginning accounting system for children to keep track of their money. If you prefer a more descriptive entry system, many account books provide excellent transaction journals.

A **general ledger** describes and dates each transaction according to major expenditure and income categories. When summarized, it is easy to see where the money is coming from or going. The income and expense summaries for each month provide the basis for developing a family spending plan. These same methods are applicable for the farm accounting system. Another method is to use a separate page for each income and expense category, which facilitates itemizing tax deductions as well as summarizing.

CHECK KEEPING (EXTENDED)

Number	Date	Category [1]	Transaction	Debit	Credit	Balance
2956	2/14/86	Gro	Food Mart groc & after game	59.53		329.03
	2/15/86	Ins	Life Mutual bank deduct [2]	44.90		284.13
Cash[3]	2/20/86	Per	Mane Event 2 hair cuts 14.00			
2957	2/21/86		Credit Card [4]	52.00		232.13
		Tran	VW gas 11.25			
		Rec	ISU concert 22.00			
		Clo	Lands End, Nan 18.75			
1001	2/22/86	Ins	AgLine Insurance refund, towing car		25.00	257.13

Usefulness of check register system can be extended by:

[1] Adding category column

[2] Recording bank deducted expenses

[3] Recording cash income or expense

[4] Itemizing credit card by categories

A **cash flow comparison** method of recording can be set up to compare the planned amount for each category with the actual income or disbursement. At the end of each record period you can easily evaluate your actual cash flow with what you projected. A variation of the cash flow comparision is the **budget control** method, where each expenditure transaction is subtracted from the budget allocation providing a remaining balance for each category. The budget control record shows at a glance how much of the planned money remains for any expenditure category during the period (example 3-12), or if planned income is a reality! Using transaction journal, general ledger or cash flow comparison recording methods may satisfy individuals who are careful, orderly and prefer documentation of financial details.

4. COMPUTERIZED RECORD KEEPING SYSTEMS

The record keeping methods previously described (receipts, check register, journal or ledger) are all manual systems and may be easily adjusted to fit the needs of each family or farm enterprise. The accounting methods used may be simple enough for the untrained bookkeeper, or complex enough to require considerable accounting skill. Generally, these manual methods are not very costly but they can become time consuming with complex operations, and tedious in manipulating columns of figures. The methods described above might easily be adapted to computerized bookkeeping.

Microcomputer bookkeeping provides instant tabulation of data and readable summaries as well as excellent storage and retrieval which facilitates management decisions for both family and farm. Programs which require only one transaction entry and which automatically update the general ledger, the cash flow comparison, the net worth and other financial reports simplify bookkeeping considerably.

Computerized bookkeeping offers three general options--spreadsheets, general purpose financial programs, and special purpose programs.

Computerized spreadsheets, which are similar to a ledger, hold rows and columns of data are easily adaptable for family or farm. The data are entered into the appropriate columns and the tabulations are instantly available on the spreadsheet. The spreadsheet on page 3-13 is a cash flow comparing planned and actual family income and expenditures for a three month period.

General purpose software programs are available which provide menu-type instructions for entering data for a transaction journal or general ledger which generates a cash flow statement. If a program which converts each entry to double entry accounting is used, the net worth statement and other summaries are automatically updated.

Some **special purpose programs** are available which assist families with more than bookkeeping. Tax management, investment portfolios, and electronic libraries are but a few of the special programs available. Farm families need to investigate programs designed specifically for farm and family use.

Besides the initial expense, a disadvantage of some computerized systems is that predetermined categories on some commercial software packages may be too rigid or restrictive or not applicable to your particular situation. In some, income and expenditures are not sufficiently itemized to be useful in analysis and planning. There are many software alternatives to choose from, so select programs which most nearly meet the specific needs of your family and farm.

Family Daily Log of Income and Expenditures

Month april

	Income	Food	Housing	Personal	Transp.	Clothing	Rec.	Ins.	Medical	Interest	Charity
1	800.00	25.25									
2		15.00	489.50								
3			45.10								
4			33.90								
5			36.00								
6						41.58					
7											
8					52.00			120.00			
9					225.00						
10				90.00							
11											
12											
13											
14											
15											
16											
17											Savings
18											50.00
19											
20											
21											
22											
23											
24											
25											
26											
27											
28											
29											
30											
31											
Total											

BUDGET CONTROL SHEET

April
Month

MONTHLY INCOME . . . . $ 1,600

Fixed Expenses:

House/rent payment	$ 489.50	Loan payment	$ 52.00	insurance $ 120.00
Car payment	$ 225.00	Charge card payment	$	
Savings	$ 50.00	___	$ 90.00	

SAMPLE

TOTAL FIXED EXPENSES $ 826.50

Date	Item description	Irregular expenses total $ 773.50		Flexible expenses									
				Household				Equipment & furnishings $		Food $ 300–		Clothing $	
				Operation $ 20–		Utilities $ 150–							
		Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance
1	Food mart	25.25	748.50							25.25	275.75		
1	REC	45.10	703.15			45.10	104.90						
2	telephone	33.90	669.25			33.90	71.00						
2	school lunch	15.00	654.25							15.00	259.75		
2	dishwasher repair	36.00	618.25	3600	−1600								
6	tennis shoes	41.58	576.67									41.58	158.41

3-12

BUDGET CONTROL SHEET

Computer Spreadsheet

HYLAN FAMILY LIVING - CASH FLOW COMPARISON, 1986

ITEMS	JANUARY		FEBRUARY		MARCH	
	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL
INCOME ITEMS						
FARM ACCOUNT	1300.00	1300.00	1450.00	850.00	1400.00	1000.00
ANN'S FREELANCE	500.00	350.00	600.00	800.00	500.00	672.50
RENT	200.00	200.00	200.00	200.00	200.00	200.00
OTHER		100.00	50.00		200.00	
TOTAL INCOME	2000.00	1950.00	2300.00	1850.00	2300.00	1872.50
EXPENSE ITEMS						
IRA	100.00	100.00	100.00	100.00	100.00	100.00
MUTUAL FUND	50.00		50.00	50.00	50.00	
SAVINGS	50.00	42.00	50.00	50.00	50.00	
LIFE INSURANCE	112.00	112.00	112.00	112.00	112.00	112.00
ELECTRICITY	80.00	110.00	80.00	120.00	80.00	102.00
TELEPHONE	25.00	16.25	25.00	42.00	25.00	39.50
MORTGAGE-PRINCIPAL	314.00	314.00	313.25	313.25	312.30	313.25
MORTGAGE-INTEREST	134.50	134.50	135.25	135.25	136.20	136.20
HOME MAINTENENCE						
PROPERTY TAX					550.00	550.00
GASOLINE	30.00	26.75	30.00	23.25	30.00	21.00
CAR MAINTENENCE	20.00		20.00	38.50	20.00	
REG. & LICENSE			128.00	128.00		
FOOD	350.00	316.00	350.00	299.00	350.00	341.00
CLOTHING- GENERAL	10.00		10.00	12.25	10.00	
SAM		150.00	150.00		150.00	
ANN			150.00	125.00		
SEAN			150.00	60.00		
PETE			150.00	72.00		
HEALTH-DEDUCTIBLE	25.00	17.50	25.00	19.25	25.00	20.50
HEALTH-NON-DEDUCT.	50.00	50.00				10.00
RECREATION	80.00	26.00	80.00	35.00	80.00	30.00
DONATIONS-DEDUCT.	60.00	60.00	60.00	60.00	60.00	60.00
GIFTS	350.00	425.00	25.00	16.00	25.00	
EDUCATION	25.00		25.00	20.25	25.00	
HOUSEHOLD SUPPLIES	15.00		15.00	28.00	15.00	
PERSONAL	50.00	50.00	50.00	50.00	50.00	50.00
TOTAL	1930.50	1950.00	2283.50	1909.00	2255.50	1885.45
GAIN(LOSS)	69.50	0.00	16.50	-59.00	44.50	-12.95

BEST COPY AVAILABLE

Remember the guideline: keep your record keeping system simple. Use the same basic type of system for both farm and family record keeping even while maintaining two separate accounts. Thus, if the farm records are computerized, it would be advantageous for family records to be similarly computerized.

Likewise, choice of cash and accrual, fiscal or calendar year, and single versus double entry accounting system would be more workable if the same system is adopted for family and farm record keeping. Each of these accounting options was addressed in Unit 2.

2. Procedures for Setting Up a Chart of Accounts

The usefulness of the information you obtain from your record-keeping efforts depends to some extent on the categories of income and expenditures you select. Some criteria for selecting income and expenditure categories are:

1. What categories will give you the most useful information?
2. How will your records make tax preparations or tax planning easier?
3. How will your cash flow statement mesh with your cash flow budget?
4. How will you use consistent recording to compare income and expenditures with records from other years?

To identify income and expenditures meaningful to you, set up a CHART OF ACCOUNTS. A chart of accounts is a listing of each income and expenditure category and a description of all items assigned to that category. On the family chart of accounts one expects to find food, clothing, housing, transportation, and savings among the categories listed. See Unit 3 Appendix for descriptions of a Chart of Accounts.

Select categories which guide your recording, budgeting, filing, and analysis . Writing up your own description of contents of each category on a Chart of Accounts helps you to be consistent in your recording and to make more accurate comparisons from year to year. Do this whether you are using a prepared system or one you design yourself.

1. IDENTIFYING CATEGORIES USEFUL TO YOU

Do you need to know how much the whole family spends for clothing or do you need to identify clothing expenditures for each individual? Would it be helpful to know the cost of operating each vehicle or is a total transportation cost sufficient? Is it important to know the exact source of all farm income which is used for family living? Do you want to know how much it costs to raise each child? Will you be able to manage your finances better if you record credit purchases separately or for the types of items purchased? How should debit card transactions be handled? How should family "savings" be recorded? Unit 3 Appendix gives a general breakdown of categories, but it is important for you to select categories which provide you with information you want and need.

Recording Credit Purchases

Questions always arise concerning when and how to record credit purchases. Credit purchases may result from the use of bank credit cards, company credit cards or consumer installment credit.

Under the cash method of bookkeeping, a credit purchase is recorded when it is paid.

A six-month installment loan would be recorded on each date paid. With an accrual system, the purchase is recorded when the goods or service is received -- the gasoline put in the car, or supplies purchased from the garden store--rather than when paid. The merits of selecting cash accounting or accrual accounting are discussed in Unit 2. For bookkeeping ease, the farm and family accounts should use the same system.

To be useful to the family for analysis and future planning, credit purchases should be itemized under the appropriate categories rather than under a category called "credit purchase." Customer copies of credit purchase receipts can be compared with the billing to confirm the item category. One billing may contain purchases for items such as gasoline for the family car (transportation), concert tickets (recreation), and mail order clothing for a child (clothing) as illustrated on the extended check register example, page 3-9. The bookkeeping process is made easier if one card is used only for family expenditures and a different card is used only for farm business expenditures.

Beginning in 1987, interest charges on credit purchases (except one's home or second home) will no longer be fully tax deductible. Therefore, if you itemize, you will need to keep a separate bookkeeping category for finance charges for tax purposes until 1991 when the interest deduction will be completely phased out. The cost of credit may be revealed more easily by itemizing credit charges separate from the purchase itself regardless of the tax deduction question.

The extent of credit used can be more easily monitored against amounts budgeted for each category if a **budget control** system is used. If extensive credit use results in a deficit or net loss for several months on the cash flow statement, the use of credit should be evaluated.

Many people like receiving the itemized credit card billing at the end of the month to aid their own bookkeeping. The advantages of convenience in emergencies and less need to carry cash must be weighed against the risks of overextending your credit limits, overextending your ability to pay, the cost of credit, and the risk of the card being lost or stolen. Become familiar with your rights and liabilities if there are billing errors or unauthorized use of a credit card.

Recording Debit Card Transactions

Use of debit cards (automatic transfer machine cards) also complicates bookkeeping. ATM cards can be inserted into machines located at banks and business establishments to obtain cash, automatically pay certain bills, transfer money from one account to another or make deposits. If you find yourself in an emergency with no cash, an ATM debit card is a very handy piece of plastic. Risks of debit cards being used without authorization include being liable for the first $50 withdrawn. Debit card loss must be reported within two business days to prevent further liability. Review your rights and liabilities stated in Regulation E by the Federal Reserve Board, which should be made available when the card is obtained.

Although an ATM itemized receipt is given at the time of use, the user must remember to enter the credit or debit in the checkbook or savings book to keep an accurate balance, as well as in the appropriate income or expense category on the CASH FLOW recording. There is no "float" time with a debit card as there is with writing checks -- your account is instantly debited or credited with the transaction.

Recording Family "Savings"

"Savings" on the family cash flow statement appears in the expenditure category, as it is money removed from checking to an interest bearing account. The value of the savings appears as an asset on the family's net worth statement. Money might be set aside by the family for vacations, a new family vehicle, or for future education. "Savings" appearing on the overall farm-family cash flow recording would include money set aside to meet farm operating expenses, future machinery needs or farm expansion.

Savings should be identified as a fixed commitment for particular goals rather than an account for leftover income not spent during the current period. A monthly savings allotment should be paid along with other bills. This allotment should include an emergency fund for the unplanned expenses, such as repair costs for a broken washing machine, unexpected dental work or replacing a lost contact lens. It should include provision for replacing appliances and furnishings as they wear out. Specific goals such as family trips, education and gift giving may be more successfully financed if a prorated monthly amount is set aside. You will need to consider the compound earnings on savings and also future inflated costs in order to "save" for long-term family goals.

2. TAX PREPARATION

The purpose of record keeping is for you to be informed, to analyze your family's past and present positions, and to plan for the future. A good bookkeeping system also facilitates ease of tax preparation and tax management.

Arrange family income and expenditure categories to provide sufficient information for ease of tax preparation. For example, gross income used directly for family living should be noted on the cash flow statement as inflow. Taxes, social security, retirement, and other monies withheld or deducted from a paycheck should be itemized in appropriate expenditure categories. The W-2 form provided by an employer can be verified easily in this manner.

Likewise, interest earned can be verified with INT-1099 forms submitted by your depository if recorded as it is posted to your account. Any items which are deductible, such as charitable contributions and interest on house mortgages should clearly be itemized in your records. Check tax laws in each current year to determine those items which are deductible for family and for farm and itemize expenditures in categories which are easily summarized at the time the tax return is prepared.

Ongoing record analysis may help you decide on certain tax management strategies, such as paying the children for farm labor (also a method of teaching money management to children by letting them handle their own checking account or make purchases with their own money) or investing in an individual retirement account.

3. PREPARING A CASH FLOW BUDGET

Categories selected for use in *CASH FLOW RECORDING* should coincide with those used in the *BUDGET*. If several categories are lumped together for budget purposes or in the cash flow statement, be sure your chart of accounts describes each well enough to provide consistency in records. Your filing system should follow the same accounts. See Unit 3 Appendix for guidelines.

4. COMPARING FROM YEAR TO YEAR

Does off-farm income sufficiently describe your family income from one year to the next or should there be an exact breakdown by earner and source of income? Comparing the cash flow statement from one year to the next can be done more effectively if categories consistently describe the same incomes and expenditures.

****

At home, write your own Chart of Accounts which meets the criteria discussed in this unit. Categories selected tell you what you want to know, ease tax preparation and management, mesh with budget categories, and are consistent from one period to another for comparisons.

****

IV. BOOKKEEPING TEMPERAMENT PROFILE

"Temperament", defined by The Random House Dictionary of the English Language, is "the individual peculiarity of physical organization by which the manner of thinking, feeling, and acting of every person is permanently affected; natural disposition."

Some individuals seem to have a natural affinity for keeping records; others shy away from columns of numbers. The amount of detail you can live with in a record keeping system may depend on your "bookkeeping temperament."

In farm business, keeping records is essential even though not everyone enjoys recording every detail of income and expenditure, balancing several accounts , analyzing numerous records, and coordinating an organized filing system.

Farm families may choose to have one or both spouses responsible for family and farm record keeping. Regardless of who is responsible, the amount of detail expected must mesh with the personality or temperament of the person responsible.

In an unofficial survey, here are statements individuals made when asked "How do you feel about keeping records of family and farm income and expenditures?" Check which responses you might have given!

1. I'd rather be fishing.
2. It has to be done.
3. The columns never add up.
4. All 6 in the family spend money, how can I keep track of it all?
5. I can tell you where we spent every cent.
6. All we ever talk about is money.
7. We need to know if we can "make it" another year.
8. We have a good income, why go to the bother of keeping records?
9. Every January I start writing down everything; by June I have given up.
10. I like working with numbers.
11. It is fun to look back and see where the money went.
12 My banker expects it.

What is your bookkeeping temperament? Will your bookkeeping temperament affect the record-keeping method you choose? Do you identify with any of the "temperaments" described?

"I can tell you where we spent every cent."

If the bookkeeping partner is ***careful, methodical, exacting, orderly and logical,*** more than likely that person will enjoy a detailed form of record keeping such as a computerized system, transaction journal, or general ledger. A person with this temperament finds it easy to apply accounting procedures to the various records prepared. This type person can usually organize a filing system, and locate records and documents easily. A person with this temperament may "keep records for records sake"...so care must be taken that the records are used to evaluate past decisions and as a basis for future planning.

"We need to know if we can 'make it' another year."

If the bookkeeping partner has a temperament of being ***flexible, creative, confident, inquisitive, assertive and analytical,*** the bookkeeping system selected might be the one which provides the fastest way to analyze records for past, current, and future decisions. This person may need assistance in selecting a record keeping system, may need to improve accounting skills and skills in organizing farm and family records. Any of the bookkeeping systems suggested may be appropriate; however, this type of record keeper will see record keeping as a means to an end, not as an end in itself. As family and farm activities become more complex, this type person may be more willing to re-evaluate the record keeping system to determine if adequate information is available for the analyses needed.

"I'd rather be fishing" or "My banker expects it."

For the bookkeeper whose temperment is more ***impulsive, spontaneous, and up-tight about working with numbers,*** or who is easily frustrated by constraining organization, the method of keeping receipts or of using check registers and summarizing totals may be preferred systems. Individuals with little interest in or aptitude toward record keeping should strive to keep adequate records to pinpoint current financial position, assess farm profitability, make financial plans for the future of the farm and family, and seek to reduce risks which could be caused by inadequate financial information. This type person may prefer to follow ready-made guides on record keeping and organizing family and farm records.

When neither partner has the temperament or inclination to do the record keeping, they may need to consider hiring the bookkeeping done. This may entail furnishing source records to a farm accounting service, or if cost effective, might mean hiring a part-time bookkeeper. It is, however, the partners who ultimately must analyze and use their farm and family records in order to make sound financial decisions. When one or both partners enjoy and are skilled at bookkeeping but time constraints prevent keeping records up to date, they may wish to hire other farm or household work done to enable them to keep and use records effectively for the family and farm business.

V. EVALUATING AND ANALYZING CASH FLOW RECORDS

Evaluating Your Method of Tracking Family Cash Flow

1. Are you pleased with the method of record keeping you selected?
2. Did you record all income and all expenditures by category on the monthly summary?
3. Did all family members cooperate in making this a workable method?

4. Is information lacking because you have no receipts? Forgot to record cash purchases? Waited until the end of the month to begin recording anything?

On-going evaluation is important when you first select a method for keeping records. Perhaps you would like to try several approaches until you find a method that is satisfactory for you and your family. Evaluation of record-keeping methods is important when there are drastic changes in your family structure, your farming enterprise, in the economy, or in your finanical position.

Analyzing Information from Your Cash Flow Statement

Once you have summarized a few months' FAMILY CASH FLOW you can begin to analyze this information to help with family decision-making. You may begin planning ahead for the next months. By the end of the year you will have much useful information from the CASH FLOW STATEMENT to help you evaluate past financial activities and project financial activites for the next year. From the CASH FLOW STATEMENT you may raise several questions, such as:

o Was there adequate income to cover family expenses? Did the farm enterprise suffer because of excessive family spending? Did family well-being suffer because of inadequate farm or off-farm income to meet basic family needs?

o If finances are tight, is there a way to increase income through better handling of checking and savings accounts?

o What strategies might be adopted to lower taxes paid which apply to family living expenses?

o What changes are needed in your use of credit cards or other forms of credit?

o Do the categories of largest (and smallest) expenditures reflect family values and goals?

o Are your expenditures maximizing your satisfactions? Are you getting the most out of your use of income?

o Is there an adequate plan for emergency expenditures?

Evaluating the Cash Flow Statement in Relation to the Cash Flow Budget

There are two principal relationships of the cash flow statement and the budget: as a basis for planning and as a basis for monitoring. The *Cash Flow Statement* from any time period provides some of the information needed to prepare the *Cash Flow Budget* for a similar future time period. To prepare a budget, the family and farm goals must also be considered, along with anticipated economic changes which will affect potential income and expenses.

Monitoring or controlling the budget also is a function of the monthly and annual cash flow statements. Checking frequently to see if income is on target and whether expenditures are within the planned guidelines can only be done by keeping accurate cash flow records. Unit 6 addresses the overall *Family-Farm Cash Flow Budget.*

Evaluating the Relationship Between the Cash Flow Statement and Net Worth Statement.

The Cash Flow Statement is often used together with the Net Worth Statement to show the overall financial condition and activities of the family. The two statements reflect the flow in financial activities and can be used as a basis for decision-making by the family or by a lending institution. It would generally be a family goal to increase net worth or to decrease the ratio of debts to assets in order to generate greater financial security.

Several financial records or summaries prepare you to analyze your financial management. The *Cash Flow Statement* for example, summarizes financial activities over a specific time, usually by month and by year. The *Net Worth Statement* shows your financial position in assets and liabilities on a specific date, often the end of the year. Your financial advisor or banker may require these two financial instruments, accompanied by your *Cash Flow Budget* any time you visit. More and more, even contractual arrangements in business require net worth statement disclosure.

****

On Exercise 3-1 you can calculate the effect certain cash flow transactions have on net worth.

****

VI. SUMMARY

The *Family Cash Flow Statement* is a financial tool to trace family income and outflow over a period of time. The main purpose of recording income and expenditures is to determine if the family is living within its income. Oher uses which can be made of the family cash flow statement include evaluating progress toward goals; analyzing use of credit or debit instruments; planning for the future, simplifying tax preparation, and balancing family spending with farm spending. The reason for keeping records is to provide information to you and to communicate your financial position and needs to financial advisors. The information should be gathered, recorded, filed and analzyed in a way to be of most use to you.

VII. GLOSSARY

Budget Control Sheet	Ledger showing amount planned for each income and expenditure category and the balance remaining after each transaction.
Chart of Accounts	A listing of each income and expenditure category and a description of items designated in each.
Cash Flow Budget	Plan for future inflow and outflow to meet goals and obligations.
Cash Flow Comparison	Ledger or spreadsheet containing the amount planned and the actual income or expenditure for each category.
Cash Flow Statement	Record of inflow (income) and outflow (expense) over a past period. The Family Cash Flow Statement, which shows income and expenditures for family living, is a part of the Overall Farm-Family Cash Flow Statement.
General Ledger	Transactions itemized in appropriate income and expense categories, either manually or by computer. A sum of each category by month produces the cash flow statement.
Net Worth Statement	Shows financial position on a particular date by subtracting total liabilities from total assets.
Source Records	Receipts, bills, checks, or other original records of transactions used to verify income and expenditures.
Transaction Journal	Chronological recording of income and expenditures.

CHART OF ACCOUNTS

Family Cash Flow Categories

This Chart of Accounts is an example of income and expenditure categories. Change it to fit your own needs. Designate which of your expenses are fixed monthly and fixed occasional expenses by circling them.

Income for Family Living

All income may be catagorized and recorded in the overall farm-family cash flow recording and all family living income may be transferred from that account to a "Family Living Account". However, some families may prefer to designate certain income such as salary, rent, or interest on family savings for family living only.

Farm Income - portion of the farm income set aside for family living.

Farm-generated Income - amount from custom work, sale of garden produce, etc. used directly for family living.

Off-farm Income - wages or salaries earned by family members. May go directly to overall farm-family cash flow recording or may be directed into the Family Living Account if used only for that purpose.

Self-Employment - services or goods sold apart from the farm enterprise which may be designated for family living only or may be recorded in the overall farm-family cash flow.

Sale Income - from sale of non-farm real or personal property.

Court-Ordered Payments - child support, alimony, spousal support or other receipts for personal or family use.

Gifts - personal gifts used for family living.

Royalties - from sale of product or service.

Interest - from family living savings account.

Dividends - from investments made by family.

Rent - income from property. Under most circumstances recorded in the overall farm-family account as income unless designated for family living only.

Family Living Expenditures

Food Purchased - groceries, school lunches, regular meals out, snacks. (Do you prefer to separate non-food items from grocery bills?)

Clothing and Personal - clothing purchases, upkeep, cosmetics, hair cuts, toiletries.

Household Operations - cleaning supplies or services, maintenance supplies or services, pest control, yard supplies, equipment, home insurance, utilities.

Household Repairs - minor furnishings, appliance repair, upkeep of heating, cooling systems, furnishings with little resale or asset value.

Housing Rent - house, apartment, or mobile home rent.

Recreation and Entertainment - lectures, concerts, sports, games, club dues, rental or purchase of home entertainment equipment, hobbies, pet, vacation, fishing and hunting license, liquor, tobacco, film.

Education - books, tapes, supplies, tuition, fees, lessons, newspaper, trade magazines, memberships, tutors, instrument rentals, field trips.

Personal Gifts - cards, flowers, gifts for birthdays, holidays, wedding, anniversaries, wrapping paper, supplies.

Charity - deductible contributions to religious, political, medical, community and educational organizations.

Health -cost of health and disability insurance, eye care, dental care, perscription drugs, hospital, doctor, service providers, supplies, equipment, over-the-counter medicines (separate deductible from non deductible).

Auto Operating - operating expenses such as gas, oil, tires, repairs, license,insurance, parking fees.

Child Care - babysitting, day care, visitation expenses.

Personal/Family Support - Personal allowances, alimony, spousal maintenance, child support, parental support.

Taxes - withholding or estimated taxes from income used for family living.

Life Insurance - term (no cash value) policies on family members which are not counted as a farm expenditure.

Family Business - legal fees (wills, divorce, adoption, counsel), bank charges, and recording fees which are not part of farm business.

Non-farm Business - uniforms, union or professional dues, nonreimbursed expenses if not a part of overall farm-family recording.

Investments for Living Expenditures

Home Mortgage - generally part of property itemized on overall farm-family records.

Home Improvement - itemized expenditures which add to the basis of the property such as insulation, additions, heating or cooling system, wall and floor coverings.

Home furnishings - appliances, furniture, furnishings, linens, tableware (generally movable inventory).

Auto Purchase - nonfarm cash vehicle payments (loans generally listed in credit use, overall farm-family budget).

Savings - emergency funds or specially earmarked savings for family (non-farm) use.

Investments - family investments separate from farm business investments.

Life Insurance - cash value insurance on family members not covered by farm business.

Exercise 3-1

RELATIONSHIP OF CASH FLOW AND NET WORTH

Whenever there is financial activity affecting assets or liabilities, **net worth** may be changed. Working as partners, calculate the "change" in the three examples below.

1. A financial activity may change the items listed on the Net Worth Statement but does not change the net worth.

   Activity: $200 is taken from savings and applied to a car payment. The $200 shows as an expense on the ***Cash Flow Statement.***

   Net Worth Statement Date 3/15/87

		Before	After
Assets:	Savings	$4200	$---------
Liabilities:	Car loan	3200	---------
Net Worth:		1000	---------

2. A financial activity may increase the net worth by increasing assets or reducing liabilities:

   Activity: $200 is taken from current income and applied to a car payment. It shows as an expense on the ***Cash Flow Statement.***

   Net Worth Statement Date 3/15/87

		Before	After
Assets:	Savings	$4200	$---------
Liabilities:	Car loan	3200	---------
Net worth:		1000	---------

3. A financial activity may decrease net worth by increasing liabilities.

Activity: A finance charge of $12.00 was assessed for lack of payment on the car loan. This amount due does not appear on the ***Cash Flow Statement*** until it is paid.

Net Worth Statement Date 3/15/87

		Before	After
Assets:	Savings	$4200	$--------
Liabilities:	Car Loan	3200	---------
Net Worth		1000	---------

Remember: the **Cash Flow Statement** summarizes financial activities over a specified period of time--most frequently by month and totaled for a year. Activities of the Cash Flow Statement which affect assets or liabilities will also affect net worth. The **Net Worth Statement** shows your financial position on one particular date.

EX 3-2

EVALUATING YOUR PRESENT RECORD-KEEPING SYSTEM

1. Which record-keeping method described in this unit best describes your present method?

   Receipts? Check Book? Account Book? Ledger? Computerized?

2. Who is the principal record keeper for family records?______________________________
3. Where is your records center located?______________________________________
4. What is your regular bookkeeping schedule?___________________________________
5. How do you describe your record keeper's temperament?__________________________
6. Check which phase of bookkeeping you feel you do well or need to improve:

Do Well	Needs Improving	
______	______	Getting source records to the records center
______	______	Keeping bills paid on time
______	______	Depositing income promptly
______	______	Keeping checkbook balanced
______	______	Recording income and expenditures by categories
______	______	Summarizing income and expenditures at the end of each month and year
______	______	Analyzing use of income to provide satisfaction to the family
______	______	Filing records and receipts so they are easily located
______	______	Using records to plan future income and outgo

7. What ideas did you gain from this unit which may help you make needed improvements in your family record keeping?

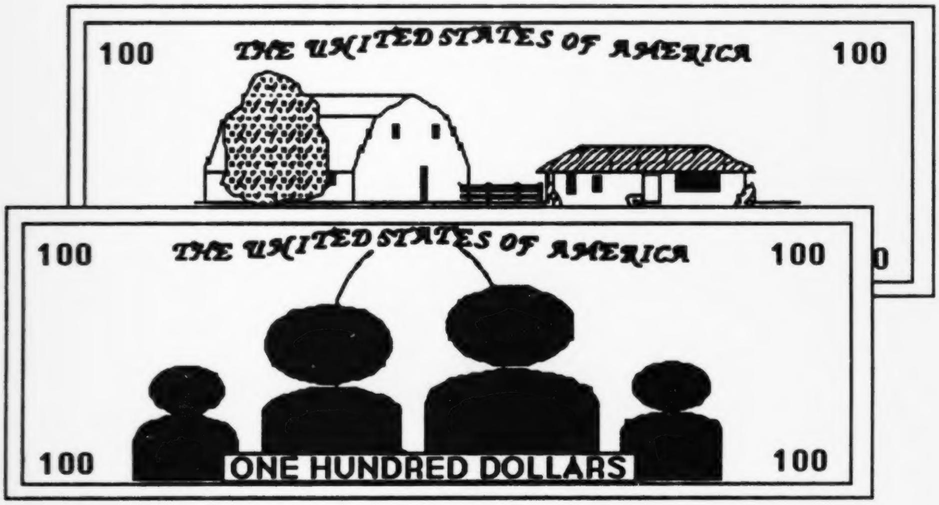
FAMILY RECORD KEEPING

Family Cash Flow Statements and Methods of Keeping Records

OBJECTIVES:

Upon completion of this unit, each farm family will:

1. become aware of the importance of recording family income and expenditures,
2. understand how to set up a cash flow statement for the family,
3. learn various methods and procedures for keeping track of family income and expenditures,
4. select a record keeping system according to their own family needs and to their "bookkeeping temperament," and
5. review the interrelationship of the cash flow statement, the cash flow budget and the net worth statement.


100
THE UNITED STATES OF AMERICA
100
100
THE UNITED STATES OF AMERICA
100
100
ONE HUNDRED DOLLARS
100

Prepared by Mary M. de Baca, Temporary Assistant Professor, Family Environment; Cynthia Needles Fletcher, Extension Specialist, Family Environment; and William Edwards, Extension Economist.

INTEREST APPROACH

A script and transparencies for "How Can Records Solve the Mini (Many) Problems of Sam and Sara from Sunshine Acres" have been prepared as an interest approach to the importance of record keeping for family living.

Discuss with the group the most important reasons they keep records or why they think they should.

TM 4-7 summarizes the importance of keeping family income and expenditure records.

TEACHING OUTLINE

Materials Needed	Approximate Time (min)	Activity	Reference Page
Part I. Why keep records?			
TM 3-1 to 3-6	15	"How Could Keeping Records Solve the Mini-Problems (or Many Problems?) of Sara and Sam from Sunshine Acres?" Script. Discuss reasons family records should be kept.	3-3
TM 3-7		Summarize with need for Family Cash Flow Statement.	
II. How to prepare a Cash Flow Statement			
TM 3-8	10	Components of Cash Flow Statement	3-3
TM 3-9		Cash Flow Statement, categories of income and expenses	
TM 3-10		Cash Flow Statement, summarizing inflow and outflow	
		Discuss fixed and flexible expenditures. Discuss net income or loss. Discuss sources of information to prepare the cash flow statement.	3-4
III. Keeping Track of Your Income and Expenditures for Your Cash Flow Statement.			
TM 3-11 to 3-15	20	Use transparencies or flip charts of corresponding participant's copies to illustrate the basic methods for keeping track of family income and expenditures. TM 3-11 Example of Receipt Method TM 3-12 Check Keeping Extended (p. 3-9) TM 3-13 Family Daily Log (p. 3-11) TM 3-14 Budget Control Sheet (p. 3-12) TM 3-15 Computer Spreadsheet (p. 3-13)	3-7
	10	Discuss criteria for preparing chart of accounts.	3-14

Sample Chart of Accounts, Appendix 3-22
Recording credit and debit card transactions
Recording family "Savings"
Tax preparation and management
Cash flow budgeting
Year to year comparisons

IV. Bookkeeping Temperament Profile 3-17

10 Discussion (add some humor).

V. Evaluating and Analyzing Cash Flow Records 3-18

Evaluating your method of tracking family cash flow
Analyzing information from your cash flow statement
Evaluating cash flow statement in relation to budget
EX 3-1 10 Relationship of cash flow and net worth statements

VI. Evaluation of Unit 3
Review unit 3 with glossary. 3-21
EX 3-2 5 Feedback is beneficial to evaluating learnings and needs.

Methods of Accomplishment

1. For objectives 2 and 3 (how to set up a cash flow statement and how to evaluate various tracking methods and procedures) transparencies plus participant content and discussion can be used.

2. To create an understanding of how to set up the cash flow statement, visuals TM 3-8, 9, and 10 progress from components of cash flow statement to categories which may be included, to a monthly record of income and expenditures. Figures correspond to CASH FLOW STATEMENT which is on participant's page 3-6.

   Discuss consequences of a net income or loss at the end of each month.

3. Use transparencies and/or the participant's materials to illustrate the basic methods used to keep track of family income and expenditures. You may wish to make blank forms from TM 3-13 (daily log) andTM 3-14 (budget control sheet) for participants who wish to use them for record keeping.

   Discuss choice of income and expenditure categories which could be meaningful to each family. Address recording procedures for credit and debit card transactions, family savings and tax preparation and management as criteria for category selection.

4. Objective 4 is to select a record-keeping system according to bookkeeping temperament. Ask participants to respond on the informal survey: "How do you feel about keeping records of family and farm income and expenditures?" This should add some humor and relaxation to the meeting. The "bookkeeping temperament" section acknowledges that each individual has a different attitude toward bookkeeping and that all chose to be farmers not bookkeepers. Record keeping should be viewed as a means to an end.

each individual has a different attitude toward bookkeeping and that all chose to be farmers not bookkeepers. Record keeping should be viewed as a means to an end.

5. To meet objective 5, provide an opportunity 1) to question the effectiveness of the record keeping method used or selected, 2) to evaluate income and spending to see if family needs and wants are being satisfied; 3) to evaluate information which can be used for future planning (budgeting); and 4) to view cash flow transactions which relate to changes in the family's net worth. Exercise 3-1 is designed to see the interrelationship between cash flow and net worth.

6. Finally, with Exercise 3-2, gather feedback on Unit 3.

ON-FARM VISIT AND EVALUATION

Outcomes of this unit which can be evaluated at the ON-FARM visit are:

1. Has the family selected (designed) a Chart of Accounts meaningful to them?
2. Is the family keeping track of expenses and income by month?
3. Did they select a record-keeping method suitable to them?
4. Has the family evaluated their inflows and outflows in terms of total resources, their satisfactions, and as a planning tool?

SUPPORT MATERIALS:

Money Mechanics, Spending Plans. Cynthia Needles Fletcher. Iowa State University Extension, Pm 934c. April 1985.

PERSONAL FINANCIAL MANAGEMENT. Jean Luttrell Weirich. Little, Brown and Company. Boston. 1983.

PERSONAL FINANCE. Thomas E. Garman, Sidney W. Echert, and Raymond E. Forgue. Houghton Mifflin. Boston. 1985.

MAKING YOUR DOLLARS COUNT. Bailard, Biehl and Kaiser Communications Group. California. 1984.

Our Family Account Book. Louise A. Young, Margaret R. Nelson and Karen P. Goebel. University of Wisconsin Extension B2372. 1981.

Money Management Calendar. Alabama Cooperative Extension Auburn University. HE-493.

COPE. with Family Financial Papers. Alberta Agriculture. Homedex 1815-11.1983.

Where Does All the Money Go? Consumer Reports. September 1986. pp 581-592.

SUGGESTED VIDEOTAPE:

Tracking Your Spending. University of Wisconsin Extension Service. (Available on loan from Family Environment Extension, 515-294-6568)

EX 3-1

Instructor's answers to problems on Exercise 3-1 pages 3-25 and 3-26.

RELATIONSHIP OF CASH FLOW AND NET WORTH

Whenever there is financial activity affecting assets or liabilities, the **net worth** may be changed. Working as partners, calculate the "change" in the three examples below:

1. A financial activity may change the items listed on the Net Worth Statement but does not change the net worth.

   Activity: $200 is taken from savings and applied to a car payment. The $200 shows as an expense on the ***Cash Flow Statement.***

   Net Worth Statement Date 3/15/87

		Before	After
Assets:	Savings	$4200	$ 4000
Liabilities:	Car loan	3200	3000
Net Worth:		1000	1000

2. A financial activity may increase the net worth by increasing assets or reducing liabilities:

   Activity: $200 is taken from current income and applied to a car payment. It shows as an expense on the ***Cash Flow Statement.***

   Net Worth Statement Date 3/15/87

		Before	After
Assets:	Savings	$4200	$ 4200
Liabilities:	Car loan	3200	3000
Net worth:		1000	1200

3. A financial activity may decrease net worth by increasing liabilities.

Activity: A finance charge of $12.00 was assessed for lack of payment on the car loan. This amount due does not appear on the *Cash Flow Statement* until it is paid.

Net Worth Statement Date 3/15/87

		Before	After
Assets:	Savings	$4200	$4200.
Liabilities:	Car Loan	3200	3212.
Net Worth		1000	988

Remember: the **Cash Flow Statement** summarizes financial activities over a specified period of time--most frequently by month and totaled for a year. Activities of the Cash Flow Statement which affect assets or liabilities will also affect the net worth. The Net **Worth Statement** shows your financial position on one particular date.

PART I. WHY KEEP RECORDS? SCRIPT

"How Could Keeping Records Solve the Mini Problems (or Many Problems?) of Sara and Sam from Sunshine Acres?"

Visual 1
TAXES

In January Sara and Sam received a 1099-INT statement from their bank indicating their savings account had earned $210.26 during the year. Sam wondered if that could possibly be correct.

* Record keeping is necessary for planning next year's committments and income tax preparation; it provides a means of comparison with tax records provided to IRS by employer, depository institutions, and others.

* It is easier to prepare income tax returns from records than to dig up all original source documents.

* A good record-keeping system is designed with general planning and tax needs in mind.

Visual 2
DETECT
PROBLEMS
AND IMPROVE
COMMUNICATIONS

In March Sara and Sam received the third notice that they owed $123.26 on their credit card plus a growing finance charge. Sara couldn't identify the charged items on the billing.

* Credit card purchases are very difficult to record because1) they may be for a variety of categories; 2) they may be made by more than one family member; 3) purchases may be for both farm and family.

* A record system can be designed to record itemized credit purchases at time of purchase in anticipation of the billing statement.

* Complete record of cash flow might encourage a family to evaluate their use of credit cards, perhaps choosing to use one credit card company for family purchases, another for farm purchases.

* All family members must cooperate to make a record system work -- communication among family members is important.

* Keeping records can help assess and often adjust spending habits of family members.

* Records can help families spot excessive credit use.

Visual 3
ECONOMIC CONDITIONS AND FAMILY LIFE CYCLE

In June Sam complained that the family kept spending more on clothing every year.

* Did they? Records would show actual amounts spent.

* Viewed over time records give understanding of expenditures which reflect changes in the family life cycle. Family needs could be considered - as children enter school or have growth spurts or participate in extra activities, their clothing needs increase.

* Records can help monitor changes in levels of income, expenses, and savings caused by economic conditions over which the family has no control. Is clothing more expensive as a result of inflation? Checking family records against the Consumer Price Index can spot some economic trends.

Visual 4
FAMILY RESPONSIBILITY

On a hot August day, Sam and Sara's children got into an argument about money for the fair. The oldest, age 13, argued she had to use her hard earned lawn-mowing money; the second, age 11, was accused of "keeping the change" for herself after making family purchases, and the 3rd, age 8, thought he should just ask his parents for some money.

* Record keeping helps families communicate about personal needs of each family member.

* Record keeping leads to budgeting - setting plans based on family needs so family members have clearer expectations of the source and responsibility in the disposal of their money.

* Record keeping and budgeting can help young family members learn money management skills.

* Record keeping can quiet family arguments and accusations concerning money.

Visual 5
LIVE WITHIN
INCOME

In December Sara and Sam realized they had spent more for family living than they had received from Sara's employment income.

* Had a decision been made that family living expenditures should be only from Sara's off-farm income? Keeping records helps you decide the sources of income to provide for family living.

* Record keeping and budgeting help you live within your available income.

* It helps you assess if you can indeed live at a certain level.

* It helps you assess if you are maximizing your income in the way it is divided between family and farm needs.

* It helps you see if the manner in which you spend actually provides satisfaction to the family.

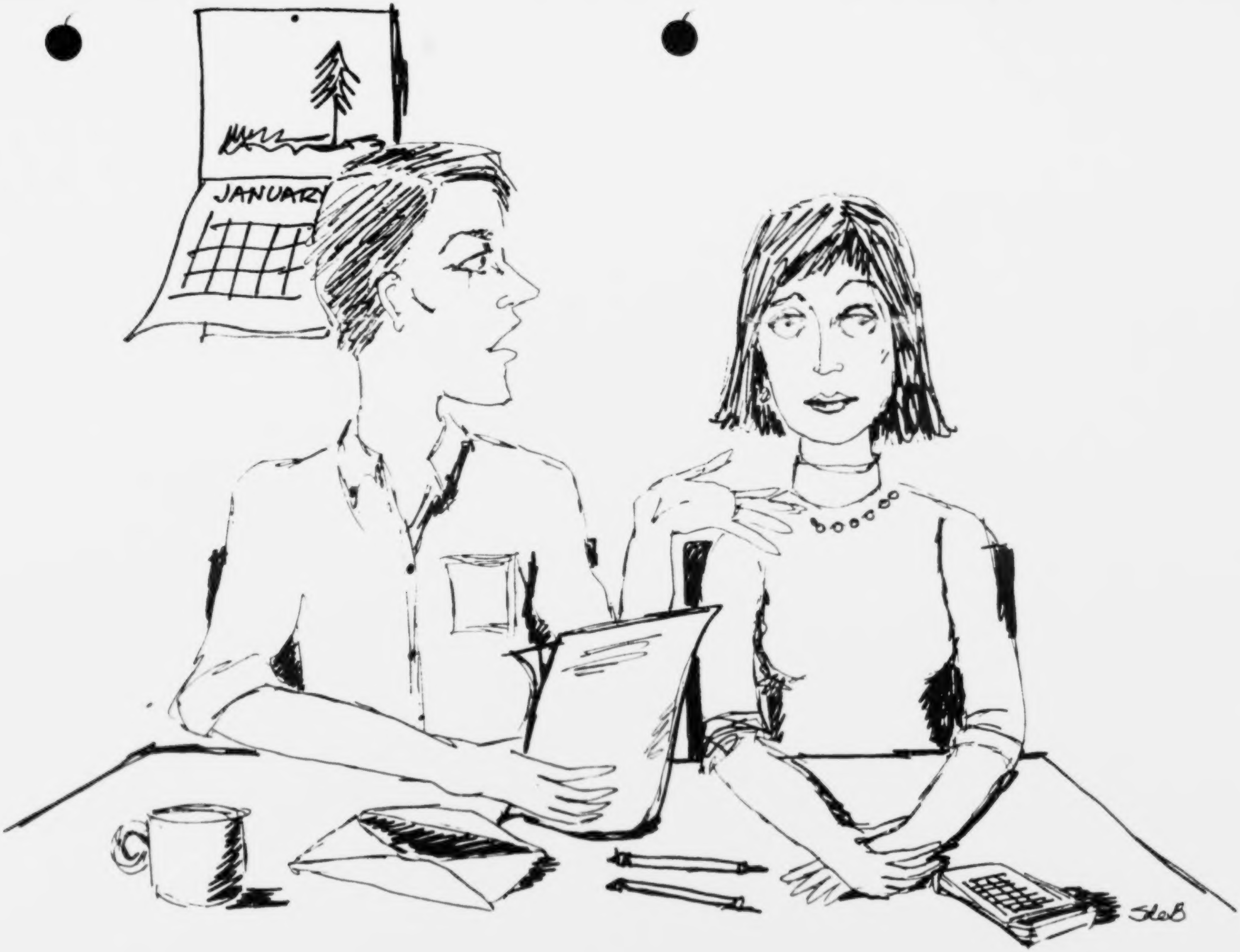
* Record keeping and financial management can help families assess the best use for farm and off-farm income.

Visual 6
FUTURE PLANS

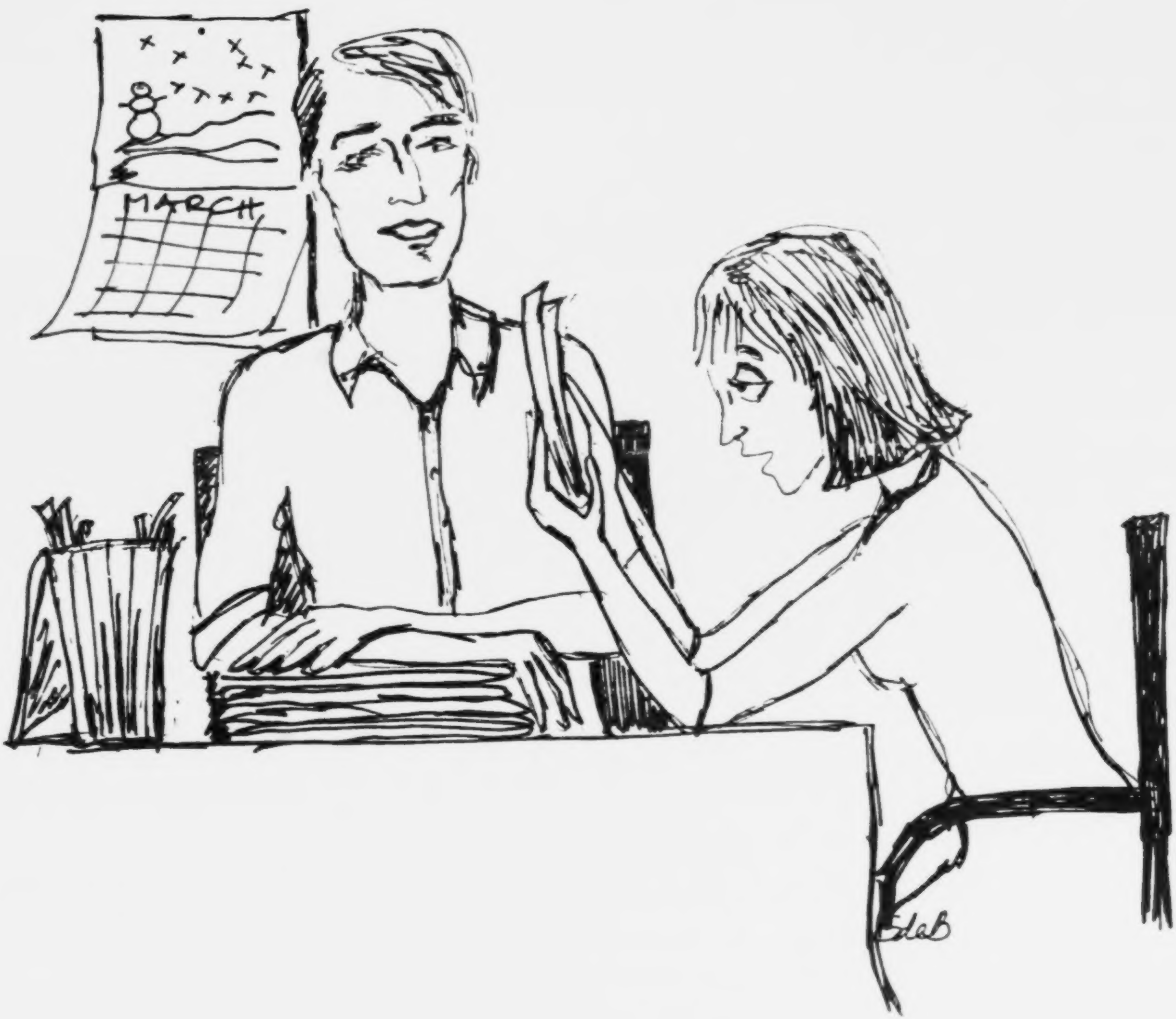
Sara and Sam decided at the end of December that they would plan ahead for next year's income and expenses for the family and the farm.

* Record keeping assists families in realistically and more easily estimating future income and expenditures.

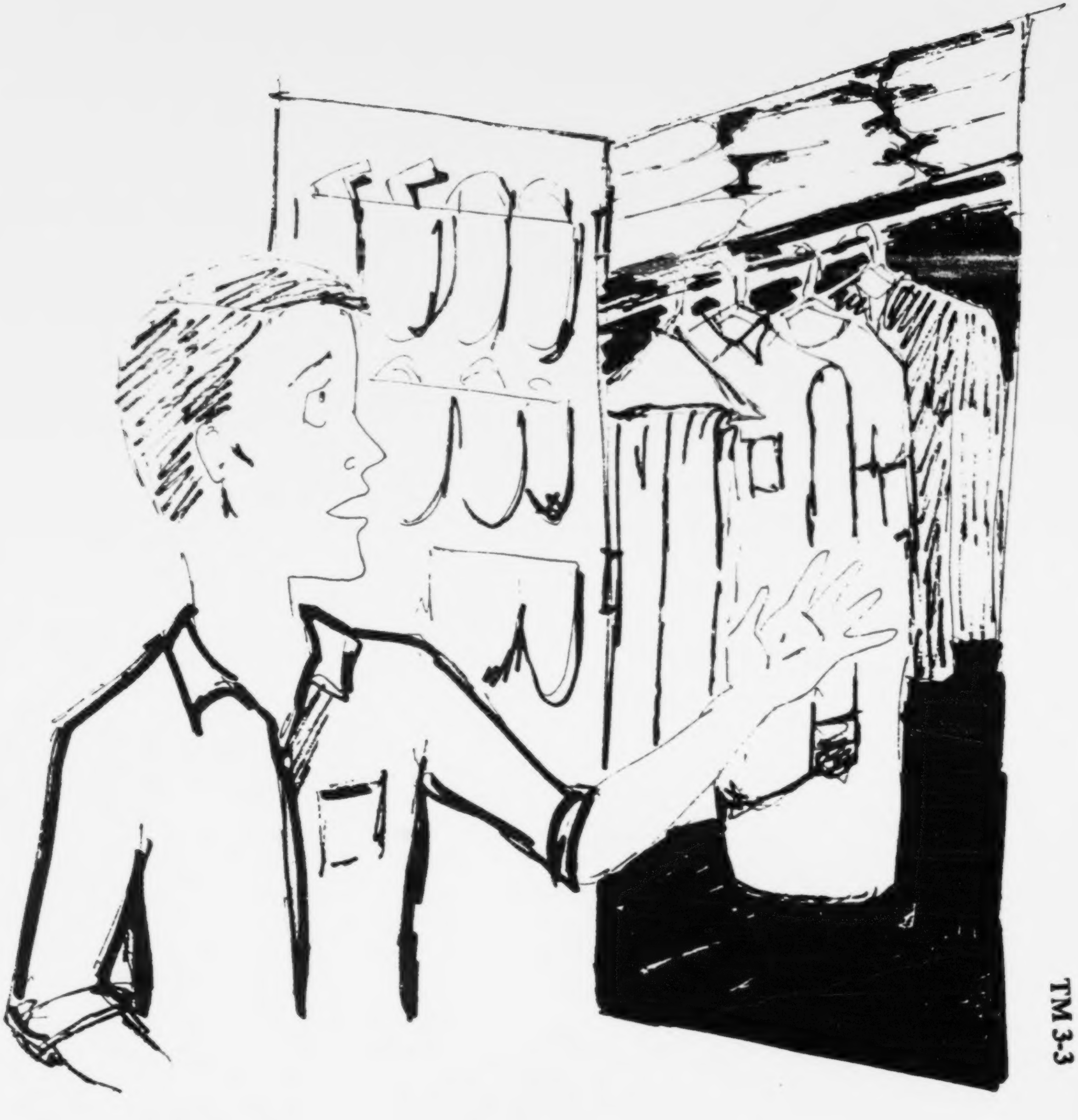
* Past records must be evaluated in light of future goals and needs in order to plan effectively.



TM 3-1



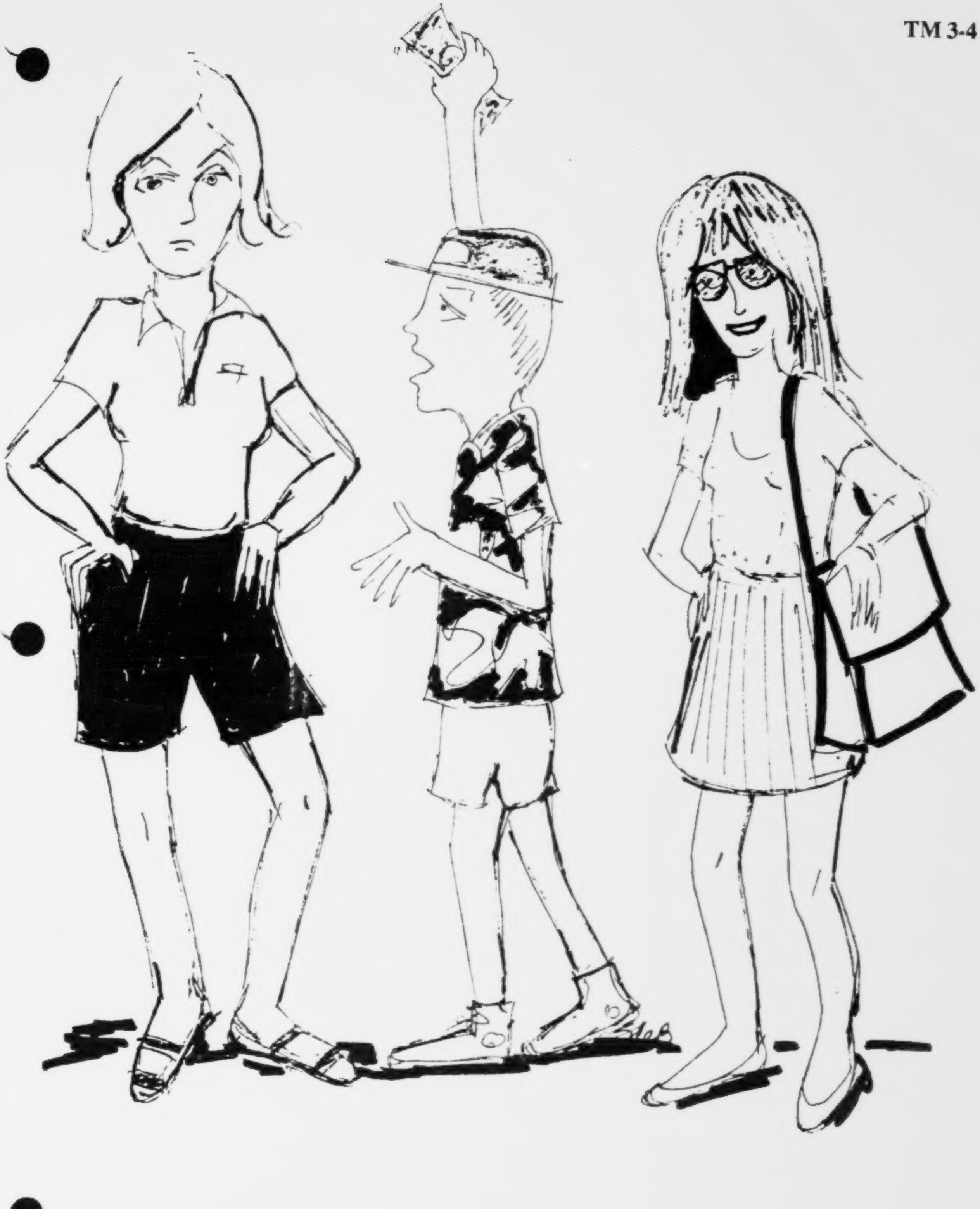
TM 3-2



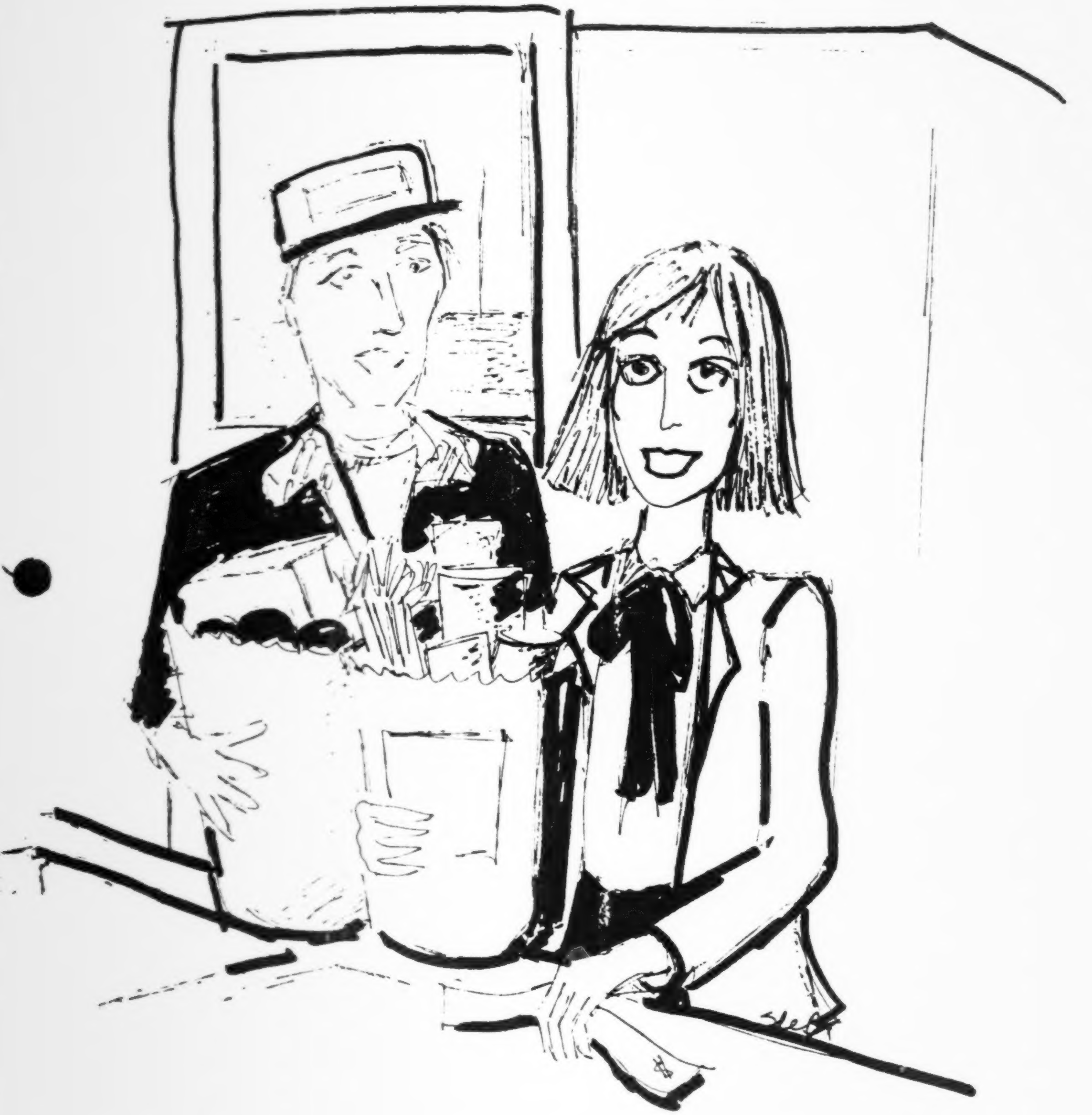
TM 3-3

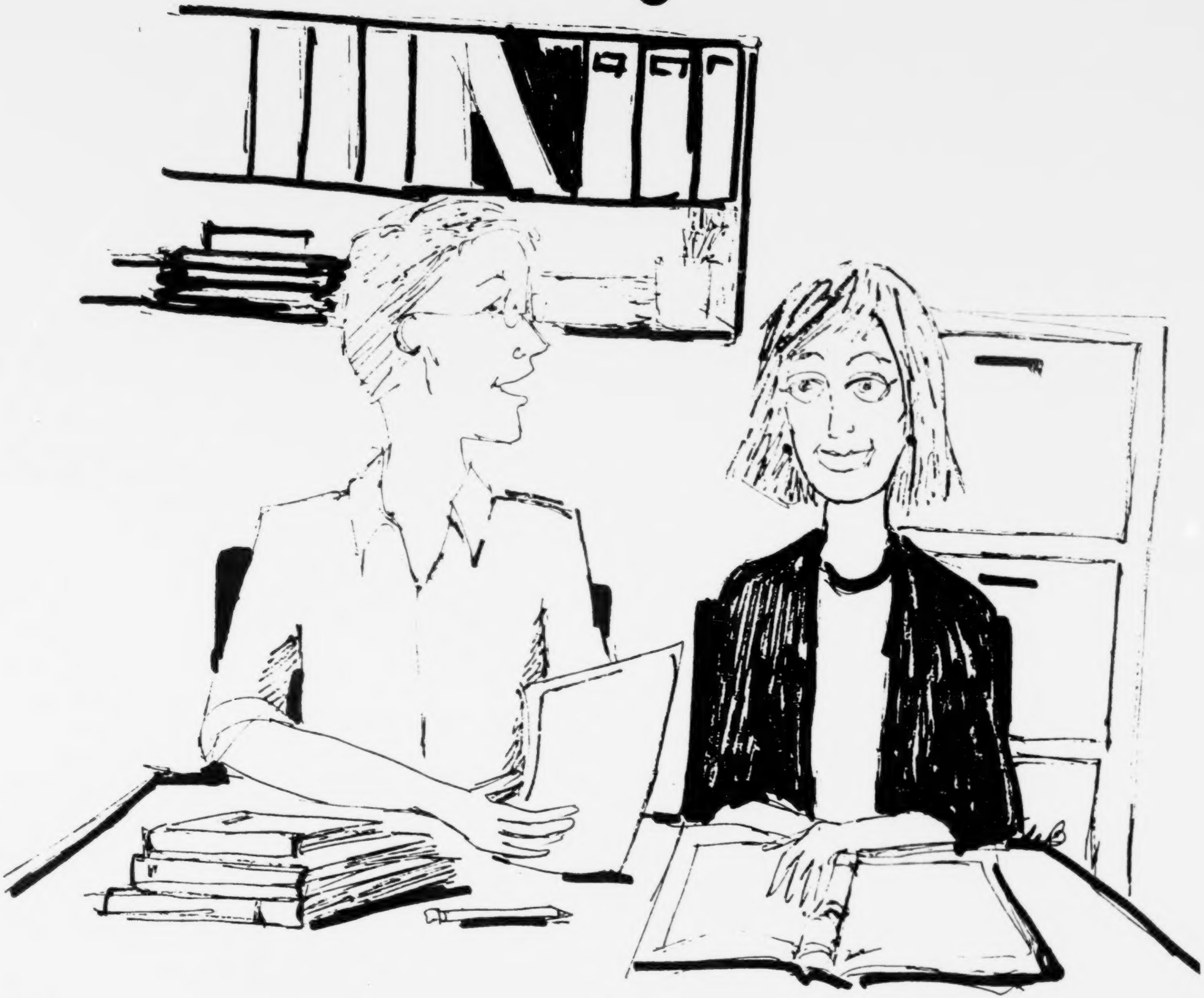
4

TM 3-4



TM 3-5





TM 3-6

FAMILY CASH FLOW STATEMENT

A record of family cash inflows and outflows

- identifies source, amount and timing of income
- shows where and when income was spent
- illustrates net income or deficit
- reviews when credit was used
- assists in tax preparation
- helps family determine if goals are met
- serves as basis for preparing future income use

TM 3-8

COMPONENTS OF THE CASH FLOW STATEMENT

DATE:

INCOME (inflow)

.

.

.

Total income ________

EXPENDITURES (outflows)

.

.

.

Total Expenditures ________

NET INCOME
OR DEFICIT
(+) or (-) ________

TM 3-9

CASH FLOW STATEMENT

________________FAMILY 198_

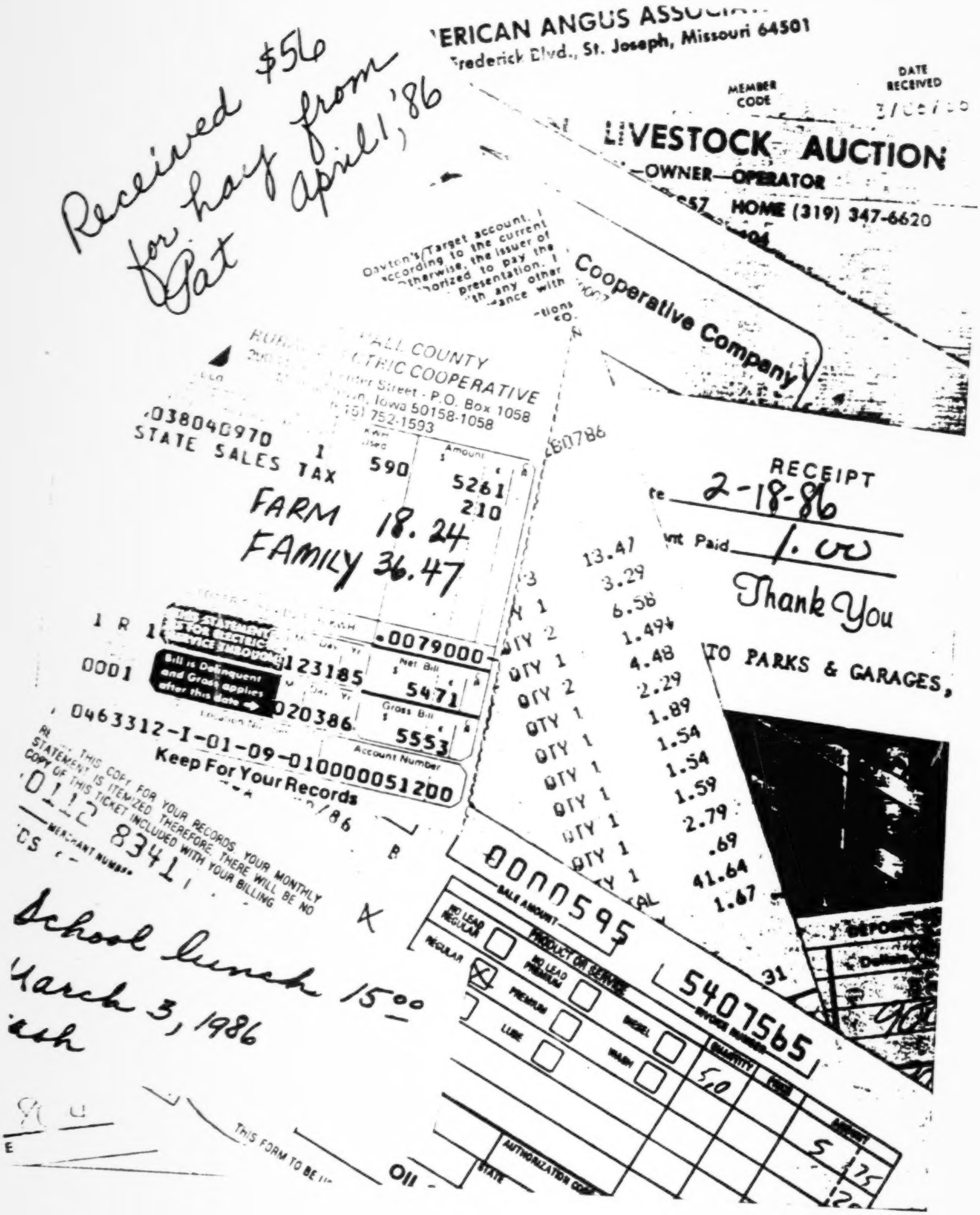
	JAN.	FEB.	MAR.
INCOME			
Farm			
Nonfarm			
Total Income			
EXPENDITURES Family Living			
Food Purchased			
Clothing			
Personal Care			
Household Maintenance			
Rent			
Health			
Recreation			
Education			
Charity, Gifts			
Auto			
Other			
Total Living Expenditures			
EXPENDITURES Investment for Living			
Home Improvement			
Auto Purchase			
Savings			
Total Investment			
Total Living Expenditures			
NET INCOME OR DEFICIT			

CASH FLOW STATEMENT

______________FAMILY 198_

	JAN.	FEB.	MAR.
INCOME			
Farm	1,500	1,500	1,500
Nonfarm		550	
Total Income	1,500	2,050	1,500
EXPENDITURES Family Living			
Food Purchased	272	312	331
Clothing	310	-	10
Personal Care	60	101	55
Household Maintenance	146	142	620
Rent	-	-	-
Health	128	128	333
Recreation	30	65	30
Education	440	15	12
Charity, Gifts	80	185	108
Auto	97	93	90
Other			
Total Living Expenditures	1,563	1,041	1,589
EXPENDITURES Investment for Living			
Home Improvement	-	498	-
Auto Purchase	60	70	60
Savings	-	-	-
Total Investment	60	568	60
Total Living Expenditures	1,623	1,609	1,649
NET INCOME OR DEFICIT	-123	441	-148

Keeping Receipts



Received $56 for hay from Pat April 1, '86

ERICAN ANGUS ASSOCIA
Frederick Blvd., St. Joseph, Missouri 64501

MEMBER CODE

DATE RECEIVED

LIVESTOCK AUCTION
—OWNER—OPERATOR
HOME (319) 347-6620

Dayton's/Target account, according to the current Otherwise, the issuer of authorized to pay the presentation. with any other ance with

Cooperative Company

RURAL ALL COUNTY ECTRIC COOPERATIVE
Street - P.O. Box 1058
Iowa 50158-1058
752-1593

038040970 1
STATE SALES TAX 590

Amount	5261
	210

FARM 18.24
FAMILY 36.47

1 R 1
0001

THIS STATEMENT IS FOR ELECTRIC SERVICE THROUGH

Bill is Delinquent and Gross applies after this date

123185
020386

.0079000

Net Bill	5471
Gross Bill	5553

0463312-I-01-09-010000051200
Account Number
Keep For Your Records

THIS COPY FOR YOUR RECORDS. YOUR MONTHLY STATEMENT IS ITEMIZED THEREFORE THERE WILL BE NO COPY OF THIS TICKET INCLUDED WITH YOUR BILLING

0112 8341
MERCHANT NUMBER

180786

3	13.47
	3.29
1	6.58
QTY 2	1.49
QTY 1	4.48
QTY 2	2.29
QTY 1	1.89
QTY 1	1.54
QTY 1	1.54
QTY 1	1.59
QTY 1	2.79
QTY 1	.69
QTY 1	41.64
AL	1.67

RECEIPT
Date 2-18-86
Amount Paid 1.00
Thank You

TO PARKS & GARAGES,

DEPOSIT
Dollars

0000595
SALE AMOUNT

PRODUCT OR SERVICE
☐ NO LEAD REGULAR
☒ REGULAR
☐ NO LEAD PREMIUM
☐ PREMIUM
☐ LUBE
☐ DIESEL
☐ WASH

5407565
INVOICE NUMBER

QUANTITY	PRICE	AMOUNT
5.0		5 75

AUTHORIZATION CODE
STATE

School lunch 15.00
March 3, 1986
Cash

THIS FORM TO BE

TM 3-12

CHECK KEEPING (EXTENDED)

Number	Date	Category [1]	Transaction	Debit	Credit	Balance
2956	2/14/86	Gro	Food Mart groc & after game	59.53		329.03
	2/15/86	Ins	Life Mutual bank deduct [2]	44.90		284.13
Cash[3]	2/20/86	Per	Mane Event 2 hair cuts 14.00			
2957	2/21/86		Creditcard [4]	52.00		232.13
		Tran	VW gas 11.25			
		Rec	ISU concert 22.00			
		Clo	Lands End, Nan 18.75			
1001	2/22/86	Ins	AgLine Insurance refund, towing car		25.00	257.13

Usefulness of check register system can be extended by:

[1] Adding category column

[2] Recording bank deducted expenses

[3] Recording cash income or expense

[4] Itemizing credit card by categories

Family Daily Log of Income and Expenditures

TM 3-13

Month ______________________________

	Income	Food	Housing	Personal	Transp.	Clothing	Rec.	Ins.	Medical	Interest	Charity
1											
2											
3											
4											
5											
6											
7											
8											
9											
10											
11											
12											
13											
14											
15											
16											
17											
18											
19											
20											
21											
22											
23											
24											
25											
26											
27											
28											
29											
30											
31											
Total											

BUDGET CONTROL SHEET

____
Month

MONTHLY INCOME . . . . $ ________

Fixed Expenses:
House/rent payment $ ________
Car payment $ ________
Savings $ ________
Loan payment $ ________
Charge card payment $ ________
________________ $ ________
____
____

SAMPLE

TOTAL FIXED EXPENSES $ ________

Date	Item description	Irregular expenses $		Flexible expenses						Food $		Clothing $	
				Household				Equipment & furnishings $					
				Operation $		Utilities $							
		Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance

BUDGET CONTROL SHEET

Computer Spreadsheet

TM 3-15

HYLAN FAMILY LIVING - CASH FLOW COMPARISON, 1986

ITEMS	JANUARY		FEBRUARY		MARCH	
	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL
INCOME ITEMS						
FARM ACCOUNT	1300.00	1300.00	1450.00	850.00	1400.00	1000.00
ANN'S FREELANCE	500.00	350.00	600.00	800.00	500.00	672.50
RENT	200.00	200.00	200.00	200.00	200.00	200.00
OTHER		100.00	50.00		200.00	
TOTAL INCOME	2000.00	1950.00	2300.00	1850.00	2300.00	1872.50
EXPENSE ITEMS						
IRA	100.00	100.00	100.00	100.00	100.00	100.00
MUTUAL FUND	50.00		50.00	50.00	50.00	
SAVINGS	50.00	42.00	50.00	50.00	50.00	
LIFE INSURANCE	112.00	112.00	112.00	112.00	112.00	112.00
ELECTRICITY	80.00	110.00	80.00	120.00	80.00	102.00
TELEPHONE	25.00	16.25	25.00	42.00	25.00	39.50
MORTGAGE-PRINCIPAL	314.00	314.00	313.25	313.25	312.30	313.25
MORTGAGE-INTEREST	134.50	134.50	135.25	135.25	136.20	136.20
HOME MAINTENENCE						
PROPERTY TAX					550.00	550.00
GASOLINE	30.00	26.75	30.00	23.25	30.00	21.00
CAR MAINTENENCE	20.00		20.00	38.50	20.00	
REG. & LICENSE			128.00	128.00		
FOOD	350.00	316.00	350.00	299.00	350.00	341.00
CLOTHING- GENERAL	10.00		10.00	12.25	10.00	
SAM		150.00	150.00		150.00	
ANN			150.00	125.00		
SEAN			150.00	60.00		
PETE			150.00	72.00		
HEALTH-DEDUCTIBLE	25.00	17.50	25.00	19.25	25.00	20.50
HEALTH-NON-DEDUCT.	50.00	50.00				10.00
RECREATION	80.00	26.00	80.00	35.00	80.00	30.00
DONATIONS-DEDUCT.	60.00	60.00	60.00	60.00	60.00	60.00
GIFTS	350.00	425.00	25.00	16.00	25.00	
EDUCATION	25.00		25.00	20.25	25.00	
HOUSEHOLD SUPPLIES	15.00		15.00	28.00	15.00	
PERSONAL	50.00	50.00	50.00	50.00	50.00	50.00
TOTAL	1930.50	1950.00	2283.50	1909.00	2255.50	1885.45
GAIN(LOSS)	69.50	0.00	16.50	-59.00	44.50	-12.95

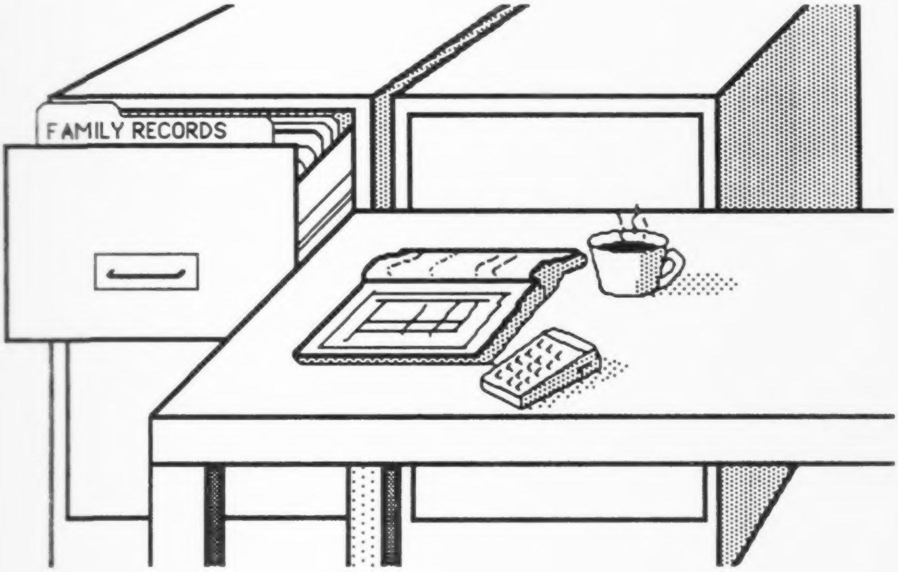
BEST COPY AVAILABLE

ORGANIZING FARM AND FAMILY RECORDS

OBJECTIVES:

Upon completion of this unit, each farm family will:

1. become aware of the value of a functional organization of farm and family records,
2. decide which current and permanent farm and family records to keep,
3. select the appropriate type of record storage for various farm and family records,
4. decide how long records should be kept, and
5. evaluate the effectiveness of its records center.



Prepared by Mary M. de Baca, Temporary Assistant Professor, Family Environment; Cynthia Needles Fletcher, Extension Specialist, Family Environment; and William Edwards, Extension Economist.

and justice for all
The Iowa Cooperative Extension Service's programs and policies are consistent with pertinent federal and state laws and regulations on non-discrimination regarding race, color, national origin, religion, sex, age, and handicap.

Pm-1284d | December 1986

Organizing Farm and Family Records

Unit 4. Table of Contents

I. Let's Get Organized
    Essentials for Organizing Records
        Flow Chart for Handling Current Transactions
        Chart of Records
        Chart of File Titles
        Records Organization

II. Current and Permanent Records
    Current Farm and Family File
    Permanent Farm and Family File

III. Where to Keep Your Farm and Family Records

IV. How Long Should Records Be Kept?

V. Farm and Family Records Center
    Where Do We Start?
    Purpose of a Records Center

VI. Summary

VII. Communicating About Farm and Family Records

VIII. Glossary

Exercise 4-1 Preparing a Flow Chart of Current Transactions
Exercise 4-2 Satisfaction with Your Present Records Center
Exercise 4-3 Organizing Personal and Financial Records

I. LET'S GET ORGANIZED

Record keeping and records analysis are an important part of farm and family management. You are encouraged to identify resources by taking inventories and calculating your net worth. Preparing farm and family cash flow statements helps you monitor current finances and plan for future needs. Record keeping can be made much easier if an effort is made to organize all family and farm records into a system. When you succeed in getting feed records from the clip board in the barn, fertilizer slips from the pick-up, report cards from school, and immunization records for each family member all located in a logical and functional system, then records are ORGANIZED.

An organized record system helps farm families conduct their affairs as a business. The purpose of a farm and family office or records center is to handle information which comes from buying and selling, producing and consuming. Accessable records help with farm and family decision making as well as with meeting obligations of taxes, payrolls, licenses, insurance, and loan payments.

Essentials for Organizing Records

A farm and home office or records center is essential to keeping organized records. A well-equipped desk with file drawers or file boxes can facilitate record handling. Safe storage for computer diskettes and backups should be provided. Schedule regular office hours for bookkeeping and filing. Create a flow chart for current transactions, a chart of records and a chart of file titles to give you the total picture of your record work.

Flow chart for current transactions

Prepare your own ***flow chart*** for handling current transactions in order to eliminate unnecessary paper shuffling. Map out each step dealing with income or expenditure transactions. From the beginning step of receiving income, for example, you may wish to verify salary or sales receipts, record the deposit in the checkbook and on the cash flow recording, deposit the income and file the original receipt. A similar process can be followed for expenditure transactions. Following your flow chart reduces omissions of any of the steps.

Chart of Records

Identify all records which you generate, often called a ***chart of records***. A chart of records helps you visualize how transactions for farm and family operating, capital purchases and financing should first be recorded in a transactions journal and/or in a general ledger. List reports you generate from the general ledger which help you evaluate and plan, such as the cash flow statement, cash flow budget and enterprise summary. On your chart of accounts indicate records you prepare in order to analyze your current financial situation, such as net worth, income and change in financial position statements. Also identify records you keep to facilitate tax preparation, such as family and farm income tax, employee payroll, FICA, and self employment tax records.

Chart of File Titles

Prepare a ***chart of file titles*** indicating the lettering, numbering, and/or color coding for current and permanent farm and family files. Use the chart of file titles to help you file materials consistently and locate records easily.

Records Organization

Having a bookkeeping and record-organizing routine helps reduce the amount of time you spend on record keeping. Major components of record organization are:

1) on-site records
2) a current file
3) a permanent file
4) a safe box file
5) an inventory of all records

On-site records are those routinely carried in your billfold, kept by your telephone with your appointment calendar, or kept at point of use. Feed consumption, milk production, and breeding records are among those which may be handier to keep on-site but eventually will need to be entered as data into a record system. Your record handling flow chart should include a plan for on-site records to be transmitted into the record-keeping system. Other on-site records, such as operating manuals for equipment and machinery, may remain at point of use.

Current and permanent records are the essence of your farm and family office or records center. These are records that require processing, storing and easy retrieval. Current records should be located in the records center where they are easily accessable. Permanent farm and family records are references less often used so could be retired to storage boxes or file drawers. Records which are difficult to replace or are negotiable should be in secure storage (usually a safe deposit box).

A records inventory details where each current and permanent record is located. If records should be lost through fire or theft, having a records inventory or summary will facilitate replacing vital records. In case of emergency or disability of one spouse, having a records inventory enables other family members to locate valuable papers. Such information could be kept on a computer diskette or in a notebook and in a safe deposit box. It is a good idea to give a records inventory to a close friend or relative outside the immediate family. An alternative is to make sure this person knows where to locate the inventory. Information and documents needed by advisors during estate planning and estate settlement can be facilitated by an organized filing system and records inventory.

II. CURRENT AND PERMANENT RECORDS

Setting up a filing system with both current financial records and permanent records for farm and family living is essential to good financial management.

Every type of important record can be assigned a folder or space for easy location. "In" and "out" baskets or labeled shelves may call attention to items which require current action. The objective should be to keep the filing system simple enough to use with ease and flexible to allow for growth and changes in the farm and family.

Current Farm and Family File

To set up a current file for records used frequently, provisions should be made for:

a. A records inventory listing the location of all farm and family records.

b. Current activity files for

   1. bills to be paid, and when paid transfer to
   2. bills paid, and when recorded,
   3. bills filed as paid receipts of current year by category, by month, or by check number, and
   4. credit card receipts to reconcile with credit billings.

c. Current activity files for

   1. income received, when deposited transfer to
   2. deposits made, and when recorded,
   3. deposits to file by categories, by month, or by check number.

d. A transaction journal for recording current income and expenditures and/or a general ledger in which income and expenditures are recorded by categories. The chart of accounts developed in Unit 3 guides recording by categories.

e. Current year working records including:

   1. bank statements, canceled checks, deposit slips
   2. cash flow statements
   3. cash flow budgets
   4. farm and family net worth statement
   5. loan files

e. Checkbook for paying bills and entering deposits

f. Current reference material

****

On Exercise 4-1 you have the opportunity to select a sequence for current income and expenditure transactions. You may wish to design a graphic flow chart for your own office procedures.

****

Permanent Farm and Family File

Both family and farm records should be included in a permanent filing system. These are records you will need to add to or change over a long period of time. General sections may be color coded. Letters or numbers on files within each category may increase office efficiency.

All files should be expandable. Use your **chart of file titles,** to help you file and locate records.

Family permanent files should include records and information for:

Summary inventory of records

Family (birth, death, wills, education, employment)

Health (immunizations, problems, safety)

Financial (insurance, investments, taxes, family financial records)

Property (inventories, deeds, titles, instructions, warranties)

Miscellaneous (lawn, garden references, holiday mailing list)

Farm permanent files should include records and information for:

Summary inventory of records

Conservation (tiling, waterways, erosion control)

Crops (major crops, hay, pastures, production, fertilizer, chemicals, soil tests, field histories, farm maps, government programs, irrigation)

Energy (electricity, oil, gas, diesel, propane, solar, water systems)

Financial (insurance, investments, taxes, farm record analyses and summaries, credit records, leases, agreements, long range plans)

Labor (payroll, FICA taxes, benefits)

Livestock (enterprise, breeding, registrations, feeding, health, production)

Marketing (crops and livestock marketing, buyers, histories, trends, advertising)

Property (inventories, depreciation schedules, deeds, titles, abstracts, machinery, equipment, buildings, property transfer)

Miscellaneous (public policy, weather information, hunting licenses)

III. WHERE TO KEEP YOUR FARM AND FAMILY RECORDS

Item	Carry With You	On Site	Current File	Permanent File	Safe Deposit Box
Account Book (Journal and General Ledger)			X		
Advisors Farm & Family				X	
Bank Records			X	X	
Bills of Sales		X	X	X	
Birth Certificates					X
Blood Type Card	X				
Burial Plot Deed				copy	X
Business Contracts			X	X	X
Canceled Checks			X	X	X
Citizenship Papers					X
Checkbook	X		X		
Credit Cards	X			List	
Debt Instruments			X	X	
Driver's License	X				
Education Records				X	
Employment Records				X	
Farm Inventories			X		List
Financial Plans			X	X	
Financial Records				X	
Guarantees, Warranties			X	X	
Health Records				X	
Household Inventories			X		List
Installment Payments			X		
Instruction Booklets		X		X	
Health, Vehicle Insurance Cards	X				
Insurance Policies				X	List
Keys, duplicate				X	
Mailing Lists			X		
Marriage, Divorce Records					X
Memberships	X			X	
Military Records				X	X
Net Worth Statement			X	X	
Organ Donor Card	X				
Passport					X
Personal Property Titles					X
Real Estate Titles, Deeds & Mortgages					X
Receipts and Bills		X	X	X	
Records Inventory			X		
Retirement Records				X	
Special Farm Records		X	X	X	
Social Security Cards	X				
Support Payments			X	X	
Stock Certificates, Bonds				X	X
Tax Returns, Records				X	
Wills				X	X

IV. HOW LONG SHOULD RECORDS BE KEPT?

Some records need to be kept forever (birth certificate or military record) and some can be tossed as soon as the transaction is recorded (the grocery bill itemized for food and household supplies). There is no single length of time to keep all records, so some guidelines can be observed.

1. **Throw it away when you've used it.**
   Keep receipts until you have summarized them (unless needed for tax purposes or proof of purchase). If you document the purchases on the check register by category, the canceled check will show proof of payment. If you use an account book (manual or computer) and record check or deposit transaction numbers you should also have proof of payment or income.

2. **Keep the record one year.**
   Referring to receipts may be helpful when preparing current tax returns. File receipts by category of income or expense for the current calendar or fiscal year. Check tax forms to determine which categories are deductible.

3. **Keep records as long as the purchase lasts.**
   Discard receipts and operating manuals when the tractor is traded, the dryer dies or the car is wrecked beyond repair.

4. **Keep tax records three years.**
   Records to substantiate adjustments to gross income, deductions and credits should be kept at least three years in case of tax audit. However, if you omitted a gross income item greater than 25% of reported total gross income there is a six-year statute of limitation for tax audit, and no time limit if fraud is involved.

5. **Keep property records as long as you have the property.**
   Anything that documents the "cost basis" of an asset must be saved until that asset is sold or otherwise disposed of and accounted for on an income tax return. The purchase documentation and any improvements of a home must be kept until it is sold in order to assess the capital gain or loss. This also applies to stocks, bonds, and other real estate.

6. **Keep some records indefinitely.**
   FAMILY RECORDS are useful for proof of age or eligibility for benefits. These include birth, death, marriage and divorce records, citizenship papers, social security number, military records, education and employment records.

V. FARM AND FAMILY RECORDS CENTER

Where do we start?

> "When we married I agreed to better or worse, but that was before I knew about farm bookkeeping. The 'experts' say to find a place to keep all your business things. Well, we found a nitch in the back hall. This morning there were feed samples, a soil test report, new and used eartags, an immature ear of corn, several nails, and a pair of gloves on top of bills to pay, sale catalogs, farm magazines, and a teddy bear. We need to get organized."
>
> "My husband gave me a filing cabinet for Christmas. I gave him several accordian file folders. I thought my husband would do the bookkeeping. He thought I would. When prices of livestock and corn were good we operated off of a positive bank balance. Now it is different. We need more answers, more figures to help make choices. This evening we decided to set up an office in the dining room since we eat in the kitchen anyway. Where do we start?"

This story is not the beginning of a soap opera but the experience of a young farm couple. Demands of record keeping and business transactions are pushing this couple to organize their records center. Whether it is efficient, effective, and meets their needs depends largely on their ability to identify the functions of a record center and to accept the responsibility to plan and implement space, time, and effort accordingly.

Purpose of a records center

Decisions concerning family or farm income and expenditures are seldom made by flipping a coin. Making accurate, informed and insightful decisions requires information.
The purpose of a records center is to handle information. It is a location from which to conduct day to day operations and a place to filter, process, store and retrieve information. A location must be identified as a records center so that all those involved--including family members and hired personnel--can facilitate the accumulation of pertinent information. Likewise, the records center generates reports which, when analyzed, provide information needed for verification, for decision making, and for long-range planning.

Space must be provided for family records and for farm records. This may be in one location or in separate locations, but must be convenient enough for those in charge to encourage bookkeeping. The records center may be a space in your home or in a home which is part of your farming operation. A pleasant, well-lighted, well-arranged space is more conducive to bookkeeping than a crowded, noisy, ill-equiped space or a scattered or portable accumulation of papers.

As your family and your farm business become more complex; as margins between expenses and income shrink; or as government agricultural programs and tax laws change, the need for an efficient and effective office center increases. As you try to improve your financial records system, you can also evaluate the adequacy of your present office set up. An office should be organized to save you time. Begin by identifying all the functions your present center serves. Question what needs are not fulfilled. Plan space, equipment and an office environment which meets the needs of the family and the farm. Involve family members in improving your office space.

****

Check your satisfaction with your present office arrangement for both family and farm record keeping on Exercise 4-2. Use the results as a basis for improving your records center.

****

VI. SUMMARY

The payoff for good family and farm record keeping comes all year long--when you need to review your insurance coverage, when you need to find a deed, a soil map of your farm, locate farrowing dates, check on immunization schedules for your children, or to make plans for future income and expenditures.

The family must decide who is responsible for keeping family records and who is responsible for farm records. A regular schedule, a work routine and a well-organized records center contribute to efficiency. Store current and permanent records so that you can find them with ease. Communicate your system to others who must help make it work. Provide a records inventory to other family members in case something happens to either spouse. Flow charts, a chart of accounts, a chart of file titles, and a chart of records are all part of the records inventory which could easily be assembled in a notebook or stored on a computer diskette. An annual overhaul or evaluation of bookkeeping routines and the records center will help you keep more organized family and farm records.

$ COMMUNICATING ABOUT FARM AND FAMILY RECORDS $

Communication is often the key to an efficient farm/family office. Exchanging ideas with other families in similar situations often is beneficial. Please share with the group how you have:

1. Kept accurate bank balances with two or more people writing checks on a joint account.
2. Succeeded in getting feed or seed (etc.) records from the pickup or barn to the office.
3. Developed a system to file and to locate records when needed.
4. Divided record keeping responsibility between husband, wife, or others.

Now ask yourself these questions. What would happen if:

1. Your spouse became disabled or died? What record keeping and management tasks would you not be prepared to handle?
2. You and your spouse were killed? What arrangements have you made for your children or others to manage your estate?
3. Your office were destroyed by fire or tornado. What would your record situation be?
4. You wished to expand your farm operation to include a brother, daughter, or son? Are there adequate records on which to base an expansion decision?

VIII. GLOSSARY

Chart of Accounts	List of categories of current income and expenditures used for cash flow statements and cash flow budgets. Appendix for Unit 3 is example.
Chart of File Titles	List of current and permanent files which allows for flexibility and expansion in the filing system.
Chart of Records	Shows relationsip of all records generated. Includes general ledger, net worth statement, income statement, cash flow statement and budget, and other records.
Current File	Contains storage for immediate transactions; filing system for recent deposits or payments; financial instruments for transactions, recording and analysis.
Flow Chart of Current Transactions	A graphic illustration of the sequence of organizational plan to handle current financial activities.
On-site Records	Records kept at point of origin or point of use.
Permanent File	Those items which can be demoted to less used storage. May be home storage or safe deposit box.
Records Inventory	Complete listing of all records and where they are located.
Safe Deposit Box	Lock box space rented from a depository for safe keeping of valuables, negotiable items, or hard to replace items.

EX 4-1

Preparing a Flow Chart of Current Transactions

Income: Steps dealing with income transactions are listed in alphabetical order. Number them in an order which shows a logical progression in a farm/family office.

Order	Procedures
______	Accounts receivable
______	Balance checkbook
______	Budget for period
______	Compare with cash flow budget
______	Deposit income
______	File in current file
______	File in permanent file
______	Identify source of income from chart of accounts
______	Receive cash for services
______	Prepare cash flow statement
______	Receive checks for products sold
______	Record transaction in general ledger
______	To - Do basket, file or drawer in record center
______	Verify with sales slips, contracts, receipts

Expenditures: These steps dealing with expenses are also listed in alphabetical order. Number them in an order which shows logical progression in a farm/family office.

______ Accounts payable

______ Balance checkbook

______ Compare with cash flow budget

______ File in current file

______ File in permanent file

______ Identify categories of expenditures from chart of accounts

______ Pay bills

______ Prepare cash flow statement

______ Receive bills

______ Record transaction

______ To - Do basket, file or drawer in records center

______ Verify with sales slips, contracts, receipts, installments, credit or debit slips

Are there other steps you need to follow in your family or farm businss? Make out a flow chart at home illustrating the flow of transactions you will follow. Test it. Change as necessary.

EX 4-2

Satisfaction with Present Records Center

Working as a couple, fill in whether you are or are not satisfied with your present records center.

	yes	no
1. Are you satisfied with your present family records center?	______	______
2. Do you have one central location to store personal, family, health, property, and family financial records?	______	______
3. Are you pleased with your present farm records center?	______	______
4. Is your records center free from family traffic?	______	______
5. Can you get to your farm office area without tracking through the house?	______	______
6. Do you presently have office facilities to		
receive business visitors?	______	______
provide meeting space?	______	______
serve as a communications center?	______	______
encourage long-range planning?	______	______
7. Does your office have adequate		
desk space?	______	______
comfortable chairs?	______	______
calculating equipment (desk top or computer)?	______	______
filing cabinets?	______	______
bookcases?	______	______
correspondence equipment?	______	______
communications equipment?	______	______
office supplies?	______	______
locations maps (farm, surrounding area)?	______	______
8. Do you have adequate lighting, heating and ventilation?	______	______

9. Are you satisfied with your present means of tabulating figures to generate reports (manual, desk calculator, microcomputer, records association)? ______ ______

10. Is there room for more than one person to work in the office area at a time? ______ ______

If you have responded to more "no" than "yes" answers, it may be time to re-evaluate the family records center. Publications which may help you improve your office include:

> *Planning and Managing Your Farm Business Center*. Herman E. Workman, Duane Erickson, Don Jedele, and William Edwards. North Central Regional Extension Publication 233.
>
> *A Microcomputer Workstation*. Harvey J. Herning. North Dakota State University Cooperative Extension Bulletin 13ANG. February 1985.

Organizing Personal and Financial Records

Please Tell Us:

1. As a result of this unit do you feel you can get your home and business records better organized? yes no

   What ideas were most useful to you?

   What ideas were least useful to you?

2. How will you begin to use the ideas you learned?

3. When will you begin? ______________________________

4. Where is your family record-keeping area? ______________Farm record-keeping area?____________________

5. Estimate the hours per week you spend on farm and family records.__________

   Do you think you should spend more time? _____ less time? _____

   Would better organization reduce time needed for record keeping?_________

6. Describe the biggest problem you presently have in organizing farm and family records.

7. What help do you need to make your family or farm records center more effective?

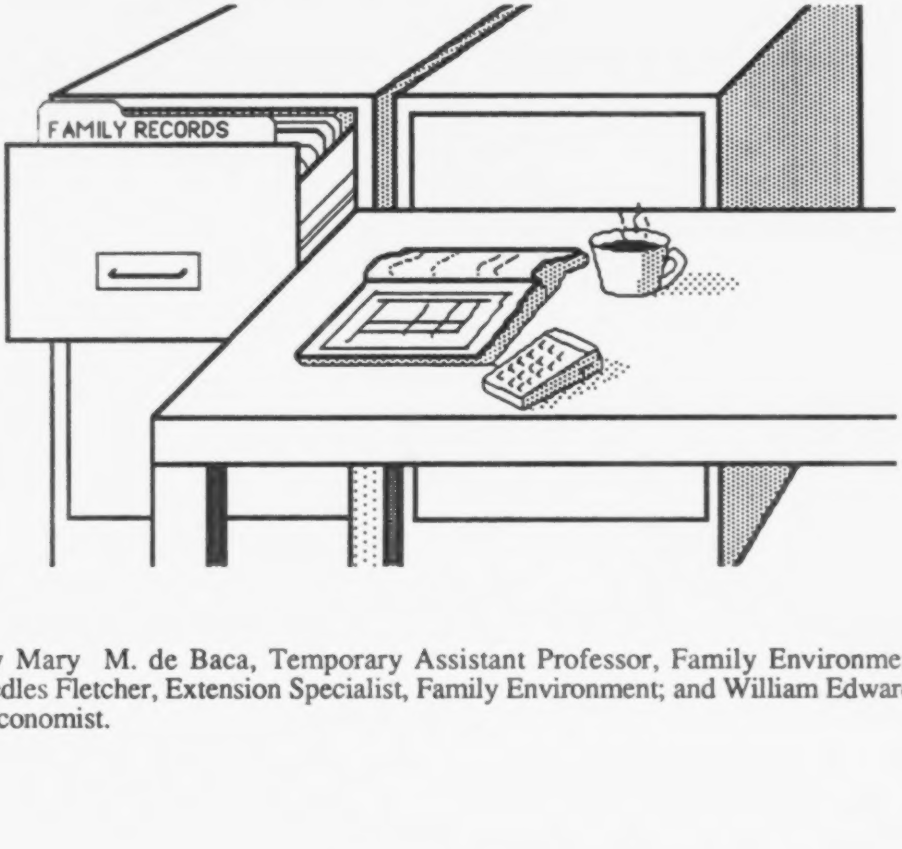
167

ORGANIZING FARM AND FAMILY RECORDS

OBJECTIVES:

Upon completion of this unit, each farm family will:

1. become aware of the value of a functional organization of farm and family records,
2. decide which current and permanent farm and family records to keep,
3. select the appropriate type of record storage for various farm and family records,
4. decide how long records should be kept, and
5. evaluate the effectiveness of its records center.



Prepared by Mary M. de Baca, Temporary Assistant Professor, Family Environment; Cynthia Needles Fletcher, Extension Specialist, Family Environment; and William Edwards, Extension Economist.

INTEREST APPROACH

Begin the lesson with the "Family Records: Where?" quiz. The quiz creates interest for a discussion about experiences families have had in situations similar to those in the questions. Each participant is to complete the quiz separately. When all have completed the quiz, partners can compare answers. Examine the importance of both partners knowing where records are kept. Duplicate one quiz (page TG 4-8, preceeding the transparency masters) for each participant.

Alternate Interest Approach:

Arrange for participants to visit a farm family operation which has a good records center and a functional record-keeping system.

TEACHING OUTLINE

Materials Needed	Approximate Time (min)	Activity	Reference Page
Quiz	5	"Family Records:Where?"	TG 4-8
	10	Introduce the subject, highlighting why organize records and record keeping constraints.	4-3
TM 4-1 to TM 4-13	15	Show visuals, accompanied by script, illustrating need for records and appropriate storage.	
EX 4-1	10	Explain function of flow chart of current transactions, and have participants prepare sequence of actions.	4-3
TM 4-14 to TM 4-16	5	Illustrate Flow Chart, Chart of File Titles, Chart of Records.	4-3
		Discuss where to keep your family and farm records.	4-7
PM 1121	10	Go through Getting Organized, ISU PM-1121 commenting on the value of each type of record.	
		Discuss how long records should be kept.	4-8
EX4-2	10	Discuss purposes of family and farm record keeping center. Participants are to evaluate their satisfaction with their present records center. Discuss needed improvements.	4-9
	10	Summarize with $ Communicating about farm and family records $	4-10
EX4-3	5	Evaluate unit 3.	

ON-FARM VISIT

Check on the flow chart of current transactions, chart of file titles, chart of records generated and records inventory prepared by the participants. Check on needs for improving their records center.

EVALUATION

The outcome should be some active interest and action taken by participants to improve their record-keeping system and center. If they are presently satisfied with their record keeping, please have them share some of their organizational methods with others in the group.

Support Materials:

Planning and Managing Your Farm Business Center." Herman E. Workman, Duane Erickson, Don Jedele, and William Edwards. Cooperative Extension Service. North Central Regional Publication 233.

"Setting Up A Farm Office." Alberta Agriculture. Homedex 1830-10.

"Money Mechanics, Record Keeping." Cynthia Needles Fletcher. Iowa State University Extension, Pm-934a. September 1984.

"Getting Organized. Personal and Financial Records." Cynthia Needles Fletcher and Jane Schuchardt. Iowa State University Extension. Pm-1121. April 1986.

"Cope ... With Family and Financial Papers." Alberta Agriculture. Homedex 1815-41. 1983.

"Our Family Records." Louise A. Young. University of Wisconsin-Extension. B 2369. 1976.

FAMILY RECORDS: SCRIPT

Visual 1
(storage box)

Every family has an accumulation of records and papers. We don't need to keep ALL of them FOREVER -- but we can't just TOSS them all away.

Visual 2
(records for)

Records play an important role in our personal and financial management. We need records for:

-- making day-to-day decisions (example: net worth statement suggests you need more insurance)

-- triggering action (example: notice from the bank that a certificate of deposit matures next Friday)

-- planning information (example: records of past expenditures are a key to planning a new budget)

-- data for reports (example: The annual April 15 "report" to the I.R.S.)

-- documentation (example: receipts and canceled checks to document tax deductions)

-- management by others (example: a will)

-- family communication (example: a letter of last instruction)

Visual 3
(records system)

What's your system? The more times you could say "Yes" to the quiz questions, the more likely yours is "file and use." But the following systems may have a too-familiar ring:

-- Pitch and pay?
-- Hide and seek?
-- Pile and dig?

Visual 4
(car, house,etc.)

Do you have your financial records organized so you could locate information regarding auto insurance coverage? Do you have a list and photographs of your household possessions -- a household inventory -- needed for collection of insurance claims? How difficult is it to come up with income and expense information at tax time? Or a history of chemicals used on a particular field?

Visual 5
(consider)

Most of us would like a record-keeping system that takes as little space, time and effort as possible. Yet it is important that family members can easily put their finger on records in times of need. The ease of replacement, negotiability and the circumstances under which the records will be needed help determine where records should be stored. Records that are negotiable -- or difficult -- or expensive to replace should not be stored at home. While these are general recommendations, each family needs to make a judgment about their own needs.

When deciding, ask yourself these questions:

-- What happens if the record is lost?
-- Is it expensive to replace?
-- How much risk is involved if someone takes the record?
-- How much risk are you willing to take?
-- When might you need the record?
-- Will others need access to the record?

Visual 6
(billfold,
file, secure file)
identification

Every family member has a collection of personal home records that are needed: some frequently, some rarely. Several frequently used ones would be carried in a billfold: driver's license, health alerts, insurance cards, and membership cards. Some rarely used records --adoption papers, birth and marriage certificate, or citizenship papers may be put in a safe deposit box. The home file stores records that you refer to frequently or periodically and that can be replaced.

Home files can be assembled as current files and permanent files.

A system is needed for current use. Current:

-- bills to be paid
-- papers to file
-- cash flow recording system
-- canceled checks and bank statement to reconcile with checkbook
-- paid receipts filed by categories, dates or transaction number

All these current records need a space at your desk to make day-to-day operations run smoothly. (Note: see unit 3 for methods of current bookkeeping; also see this unit for more details on organizing current records.)

Current farm records may be located in the barn, in a machine shed or in the back pocket of the jeans. A system is needed to get such records to the records center.

Permanent files can be alphabetically arranged or color coded by categories for easy identification. Permanent files for the family include family, health, financial, property, and miscellaneous records.

Visual 7
(farm records)

Permanent farm files include conservation, crops, energy, financial, labor, livestock, marketing, property and miscellaneous records.

Visual 8
(home file/
secure file)

Most information about home furnishings and appliances, farm machinery and equipment can be stored at home. Discard expired warranties and instruction books when you dispose of an appliance or piece of equipment. Pictures of the contents of your home -- including all those things in closets or cabinets -- can facilitate making a household inventory. Keep a copy of farm and home inventories and photos at home; keep an up-to-date copy and duplicate photos or negatives in the safe deposit box.

Visual 9 (auto)	Most of us have heard the story of the man writing down his license plate number as he sees the thief driving his car away! Would you find this necessary? Your vehicle registration form may be required as you travel so it's generally kept with the automobile -- it need not be displayed -- or carried by the driver. The title is needed when a vehicle is sold for proof of ownership, so place it in the safe deposit box! Maintenance records as well as a list of vehicle licenses and drivers license numbers should be kept at home.
Visual 10 (abstracts, deeds, mortgages)	Documents related to ownership of real estate such as deeds, abstracts of title and mortgages need to be in the safe deposit box because of the cost and inconvenience of replacing them. Information about real estate -- location, purchase price and date, place deed is recorded -- should be in the home file. Information about the ownership of a cemetery plot should be filed in two places: real estate and death instructions.
Visual 11 (secure file, home file, billfold,checks and credit cards)	The loss of a checkbook or credit card is not only inconvenient -- it can be costly. You can be held liable for $50 per credit card account unless you have promptly informed the company of your loss. How many credit cards do you carry? The loss of an ATM (Automatic Teller or "24-hour" Machine) card can create greater liability. If your card is lost or stolen and you don't notify the bank within 2 business days, and your card is used, you can lose as much as $500. A copy of your will can be kept at home for your reference. The original may be stored in your safe deposit box, in your attorney's storage service, or with the Clerk of the District Court.
Visual 12 (calendar, addresses, folders)	Families keep lots of other records that make life easier. A calendar used for family activities and appointments can also track due dates for various bills and financial obligations. An address book also may be part of a home and farm office file. Organizations also seem to generate information that may need storage.
Visual 13 (lists)	We've talked about three key locations for family records: your billfold, the home and farm office current and permanent file, and in secure storage -- typically a safe deposit box. Because of the number of places records are kept, it's important to keep lists of the contents of your billfold, the home file and an inventory of the safe deposit box. Keep a list of what's in your billfold and safe deposit box in the home file. Keep a list of key items that are in the home file stored in the safe deposit box. This extra step can facilitate replacement if that is needed and can help other family members locate records in case of emergency. Getting Organized, ISU Pm-1121, is a summary booklet for essential information.

Adapted by Cynthia Needles Fletcher from materials and visuals prepared by Agricultural Extension Service, University of Minnesota.

Instructor's Guide

To accompany TM 4-14: Flow Chart of Current Transactions

To help you explain the SAMPLE FLOW CHART:

1. In the middle, left of page, is the "to do" basket. It deals with income (above) and expenses (below).

2. When income or bills come "to do", the first thing is to VERIFY these items. For income this may be salary receipts, sales slips, contracts. For expenses this may be receipts, credit or debit card slips, contracts, installments, ammortization tables, etc.

3. On a regular basis handle these items collected in "to do" by DEPOSITING or PAYING. Deposit all income and pay all bills by check so that an accurate record is available. Use separate family and farm checking accounts. Decide on the best method of handling income--to checking or to an interest bearing account or to pay on loans. If cash is used, skip to "record and file" to keep accurate records of all income and expenditures.

4. When transaction (deposit or payment) has been made--and the checkbook balanced, RECORD the transaction in the general ledger of the bookkeeping system. This becomes a part of the cash flow recording. FILE for evidence.

   Filing may be done in the current file if a balance remains (accounts payable or accounts receivable) so that the file can be called up for the next payment period and go through the "to do" - verify - checkbook - record and file sequence again.

   Current files can be cleared at year's end to the permanent home file or to safe storage. Inventory of permanent records should be kept updated.

5. From record of transactions of income and expenditures comes the MONTHLY CASH FLOW STATEMENT which can be analyzed to see if the family and farm are operating within their means and if needs and wants are being met.

6. Monthly cash flow statement can be compared with CASH FLOW BUDGET to determine adjustments needed for the upcoming period.

7. This is one family's flow chart. It was charted to provide an orderly system for current transactions for the bookkeeper and for all others who acquire any written or verbal information affecting current income or expenditures.

FAMILY RECORDS: WHERE?

	YES	NO	IF YES, WHERE?
1. If your federal tax return submitted three years ago is audited, do you have documents to support the deductions claimed?	_____	_____	_______________
2. If your house burns down, do you have a list of household furnishings to use when filing an insurance claim?	_____	_____	_______________
3. Do you have account and telephone numbers of whom to notify if your credit cards are stolen?	_____	_____	_______________
4. Could you give police your truck license plate number if it were stolen?	_____	_____	_______________
5. If you want to trade cars, can you locate the title to your car?	_____	_____	_______________
6. Can you produce evidence that you paid last month's phone bill?	_____	_____	_______________
7. Could your family locate your Social Security card if they became eligible for benefits?	_____	_____	_______________
8. Would family members be able to locate all bank accounts, securities and insurance policies if you were suddenly unable to handle your own affairs?	_____	_____	_______________
9. Have you expressed in writing your preferences for funeral arrangements and disposition of your body at death?	_____	_____	_______________

Adapted by Cynthia Needles Fletcher, Extension Specialist, Family Environment (Consumer and Management), Iowa State University, Ames, Iowa from materials prepared by Dorothy Goss, former Extension Specialist, Family Resource Management, University of Minnesota.

TM 4-1

Family
Records

Records for:

---Information for day-to-day decisions

---Triggers for action

---Planning information

---Data for reports

---Documentation

---Management by others

---Family communication

TM 4-2

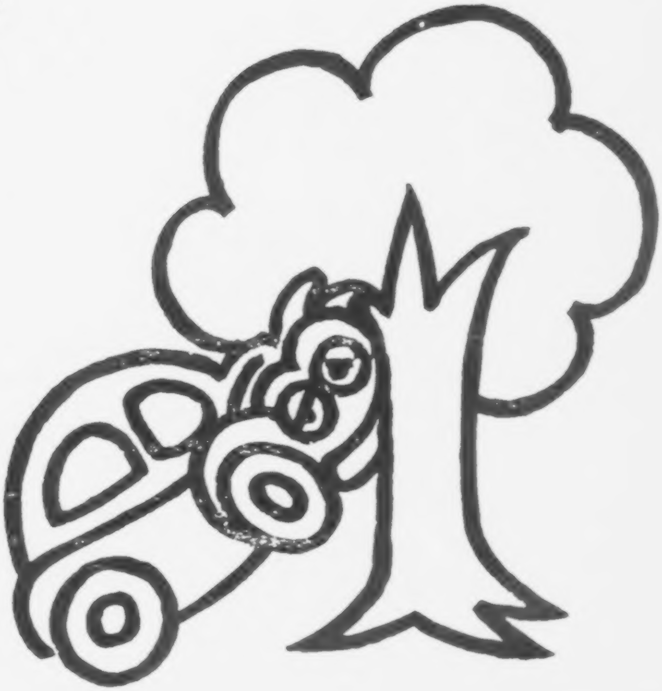
Your Record System

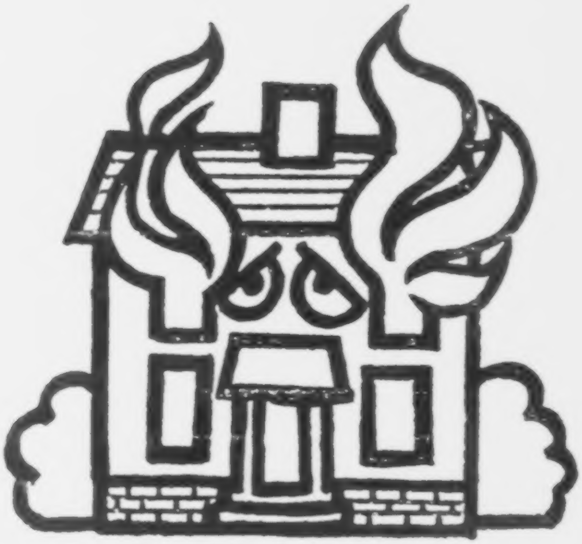
---Pitch and pay?

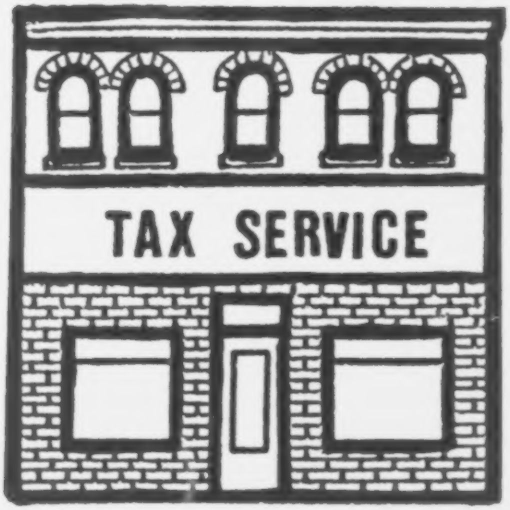
---Hide and seek?

---Pile and dig?

---File and use?



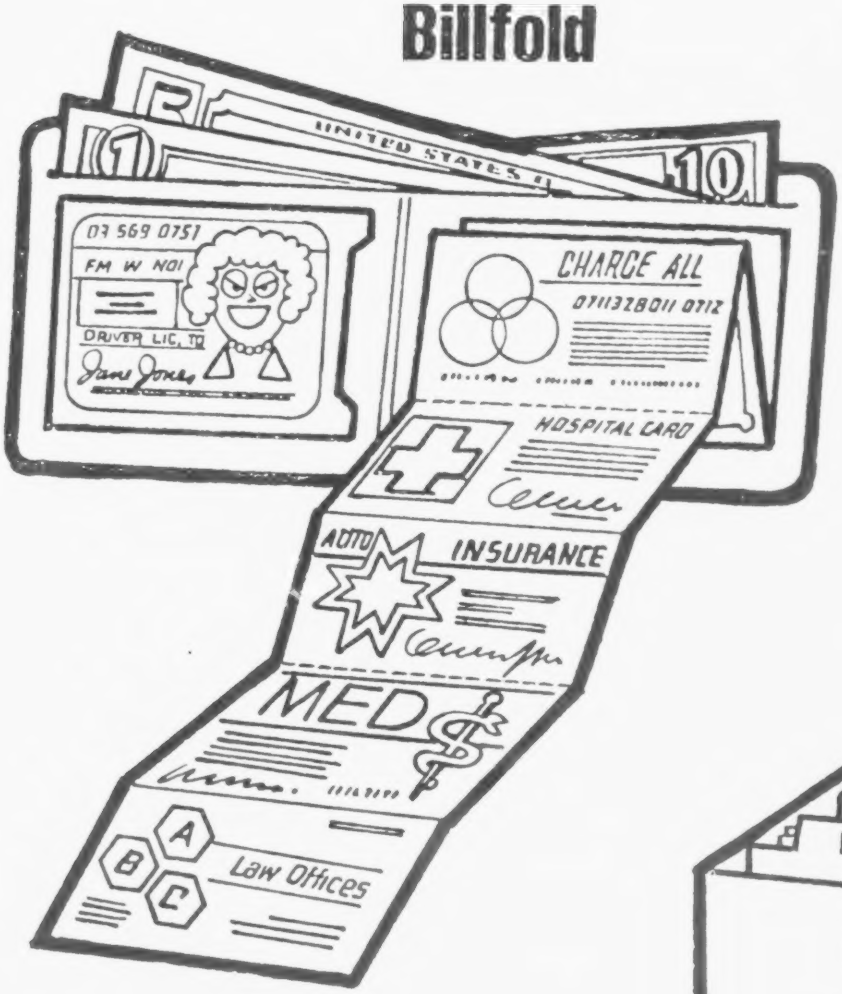



TAX SERVICE

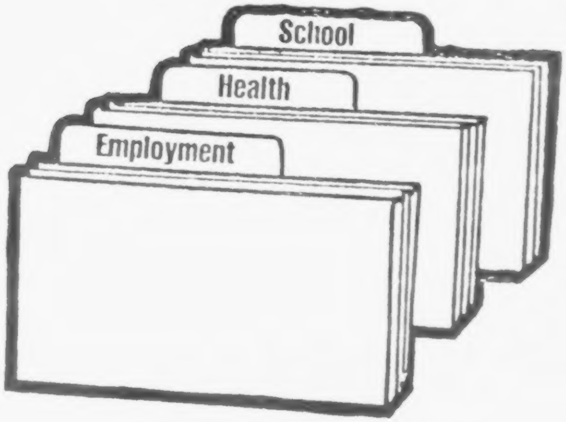
Considerations for Storage:

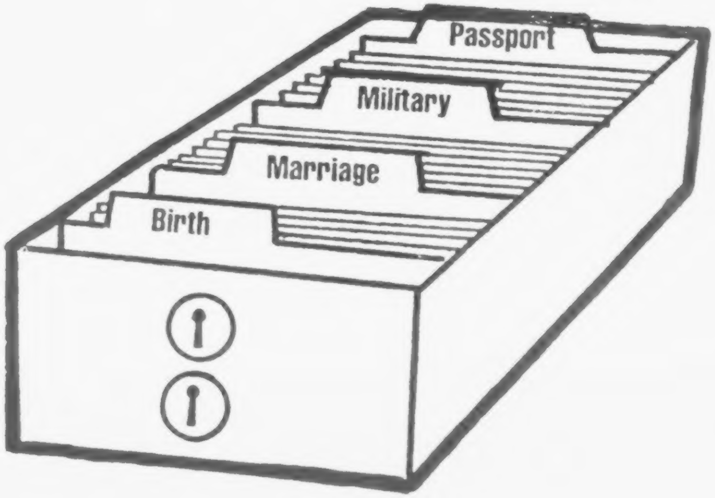
- —Expense of replacement
- —Difficulty of replacement
- —Negotiability
- —Risk if lost
- —Circumstances (when needed)

Billfold


5
1
UNITED STATES
10
07 569 0751
FM W NOI
DRIVER LIC. TO
Jane Jones
CHARGE ALL
07113280 11 0712
HOSPITAL CARD
AUTO
INSURANCE
MED
A
B
C
Law Offices

Home File

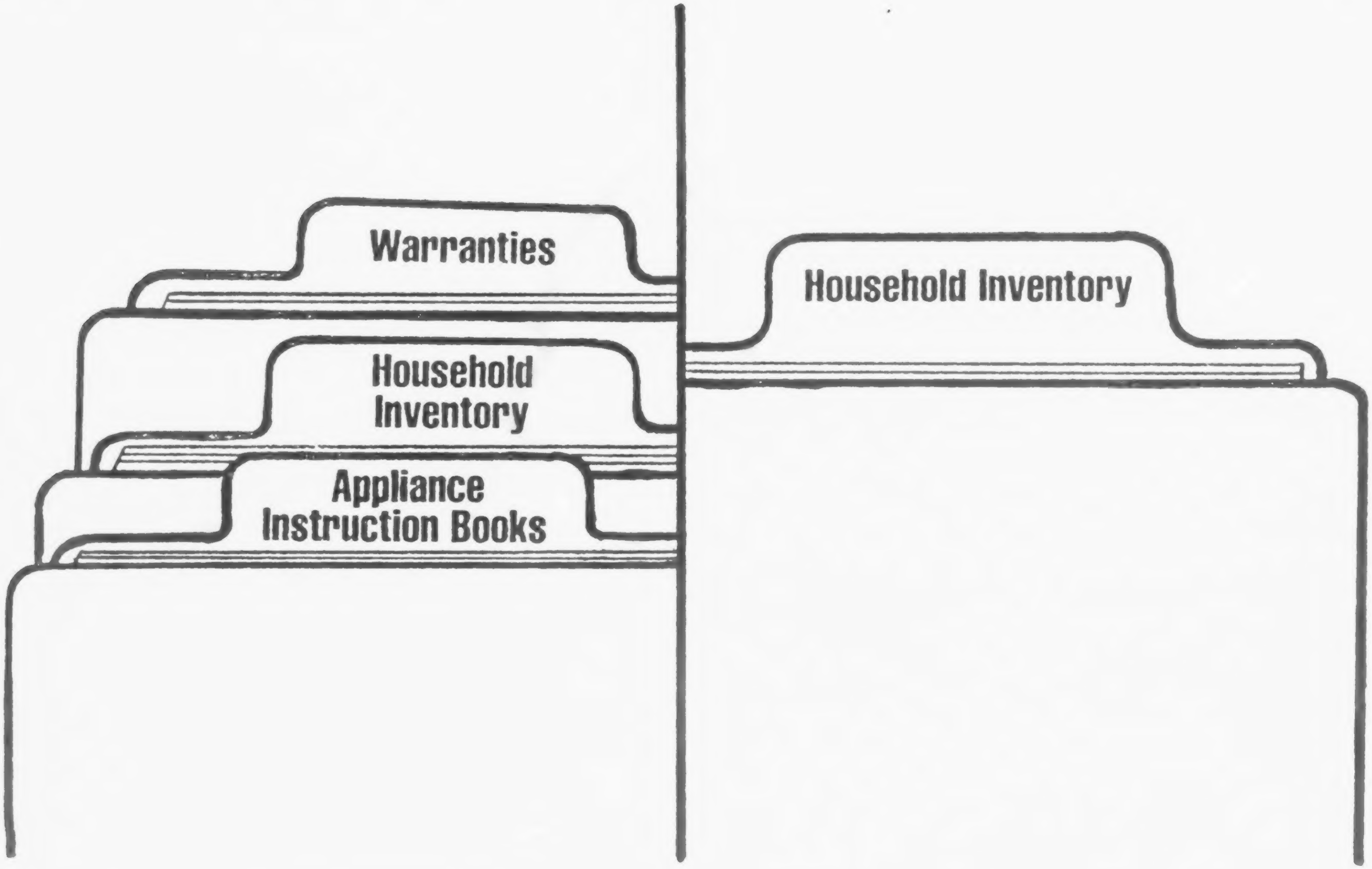

School
Health
Employment


Passport
Military
Marriage
Birth

Secure File

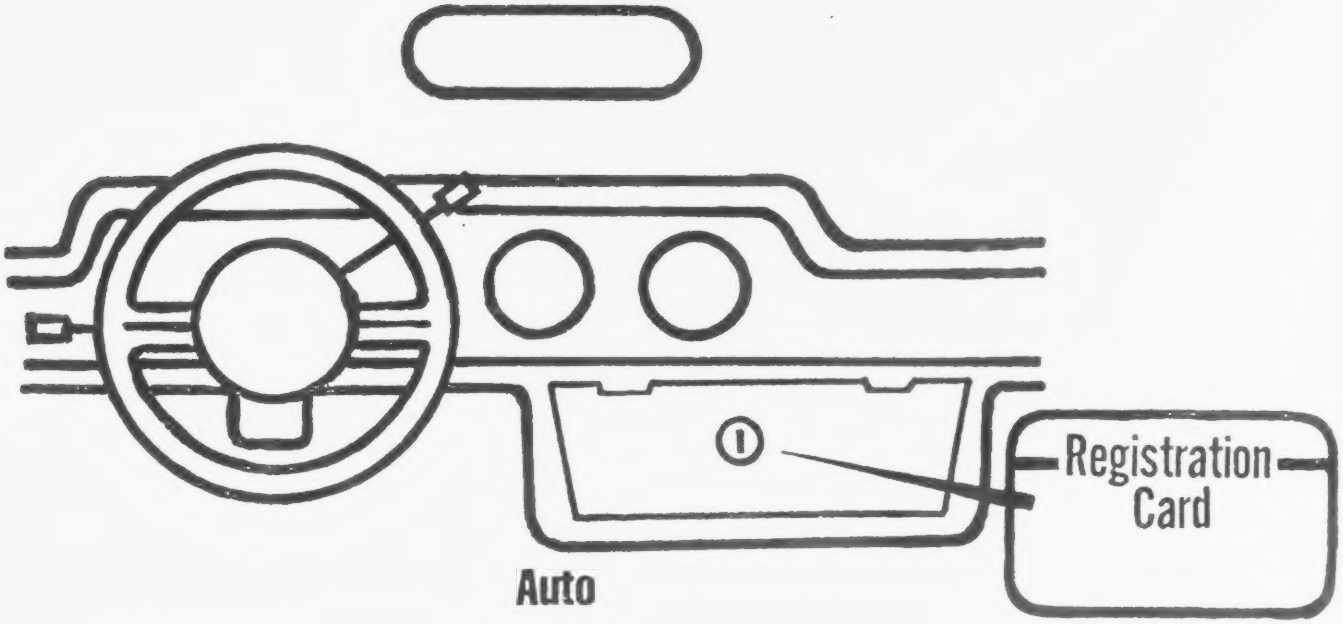
TM 4-7

Farm
Records


Warranties
Household Inventory
Appliance Instruction Books
Household Inventory

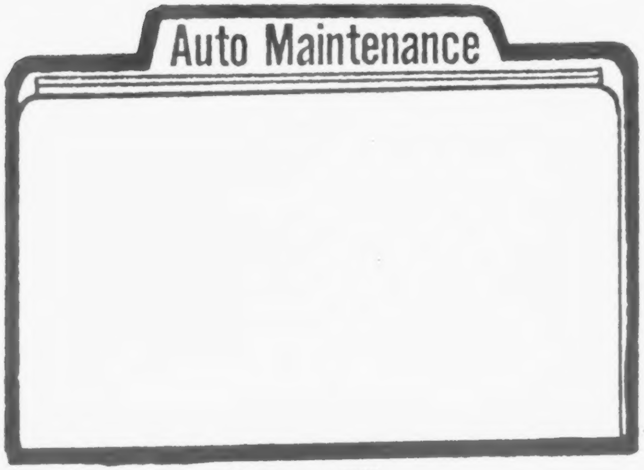
Home File **Secure File**

TM 4-8



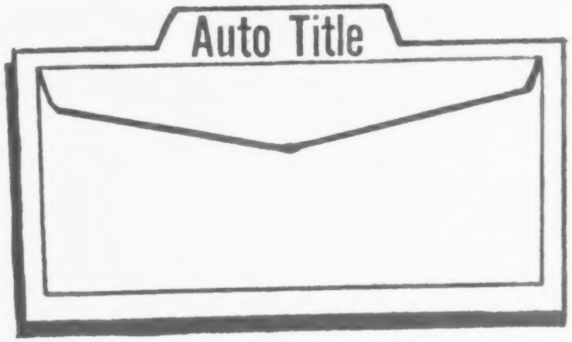
Registration Card

Auto



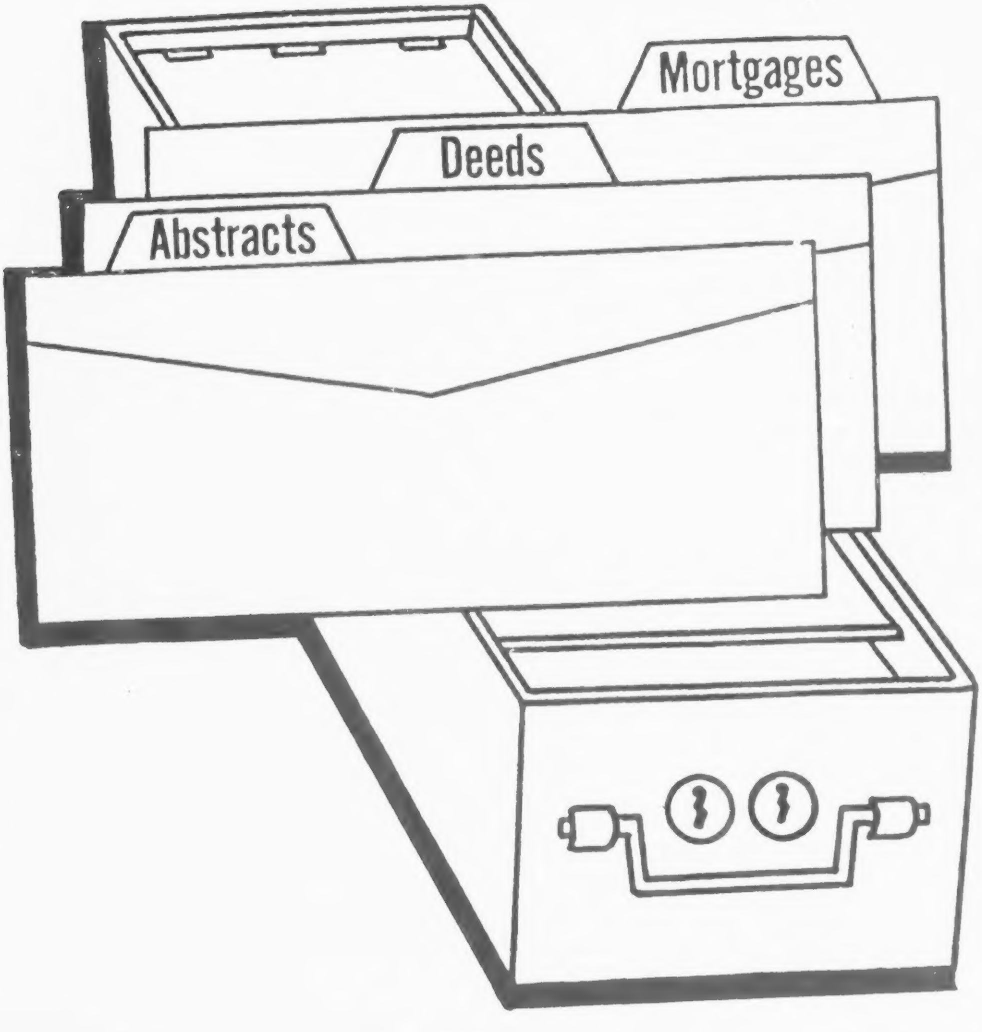
Auto Maintenance

Home File

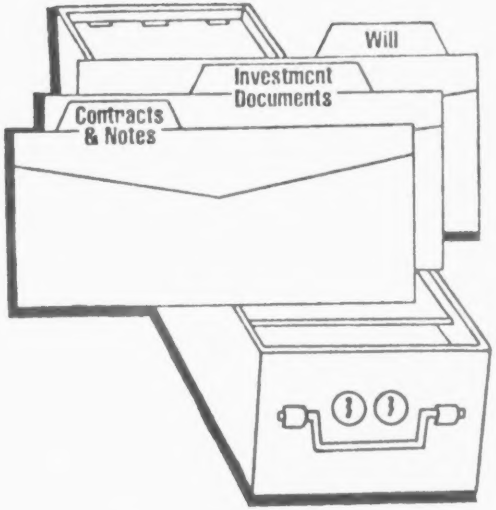


Secure File

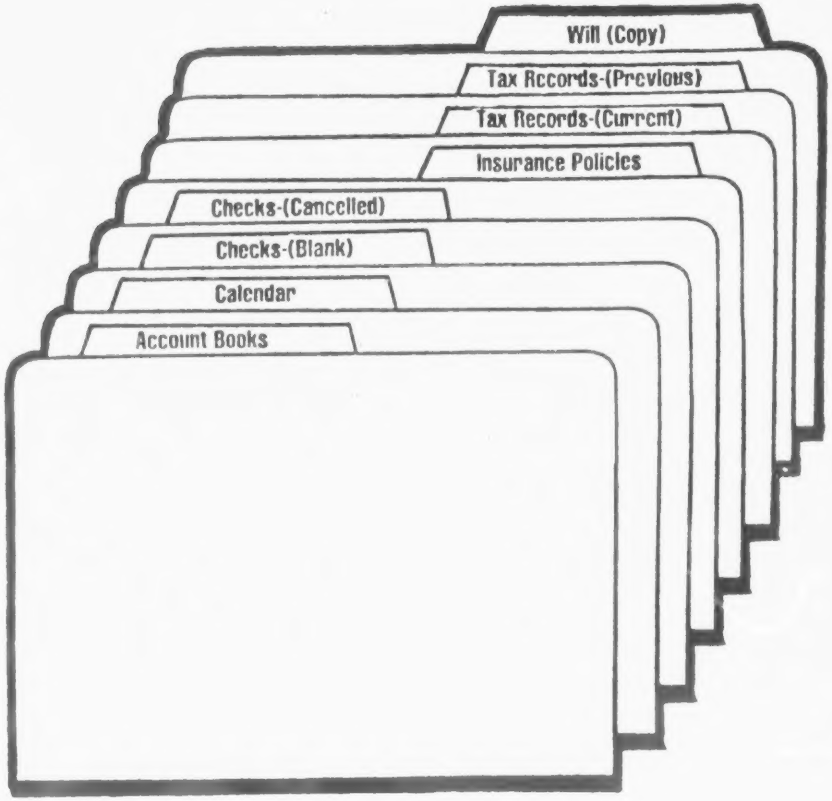
TM 4-9


Mortgages
Deeds
Abstracts

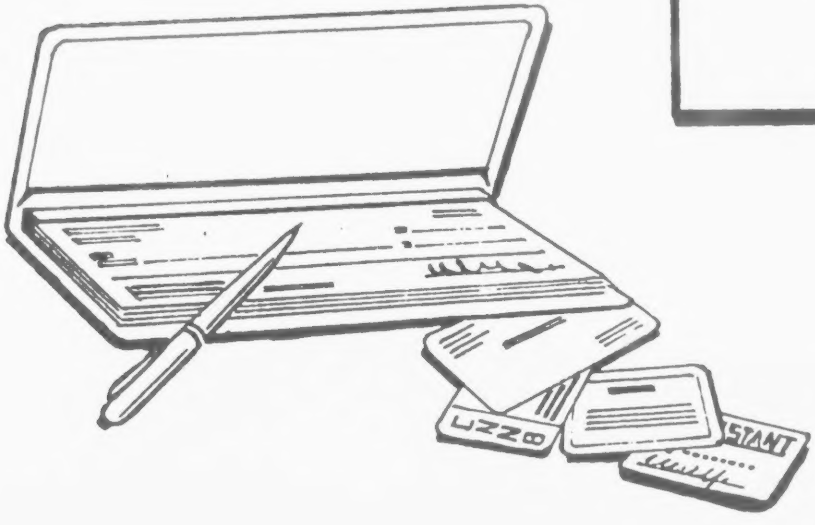
Secure File


Will
Investment Documents
Contracts & Notes

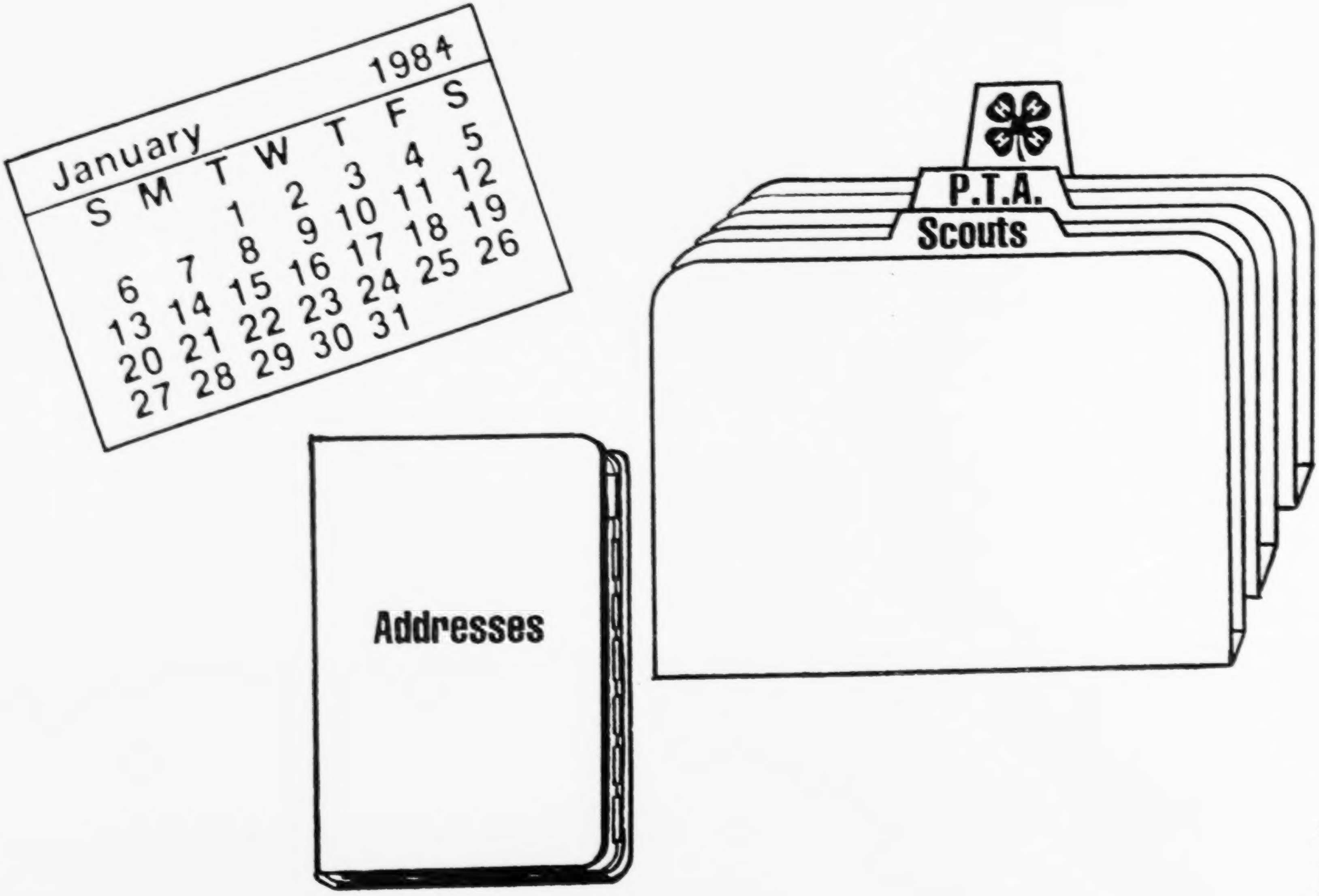
Secure File


Will (Copy)
Tax Records-(Previous)
Tax Records-(Current)
Insurance Policies
Checks-(Cancelled)
Checks-(Blank)
Calendar
Account Books

Home File



Billfold


January 1984
S M T W T F S
1 2 3 4 5
6 7 8 9 10 11 12
13 14 15 16 17 18 19
20 21 22 23 24 25 26
27 28 29 30 31
Addresses
P.T.A.
Scouts

TM 4-12

WHAT'S WHERE??? (Listed and Recorded)

In Billfold

Item	No.	Contact

In Home File

Item	No.	Contact

In Secure Storage

Item	No.	Contact

TM 4-14

FLOW CHART OF CURRENT TRANSACTIONS

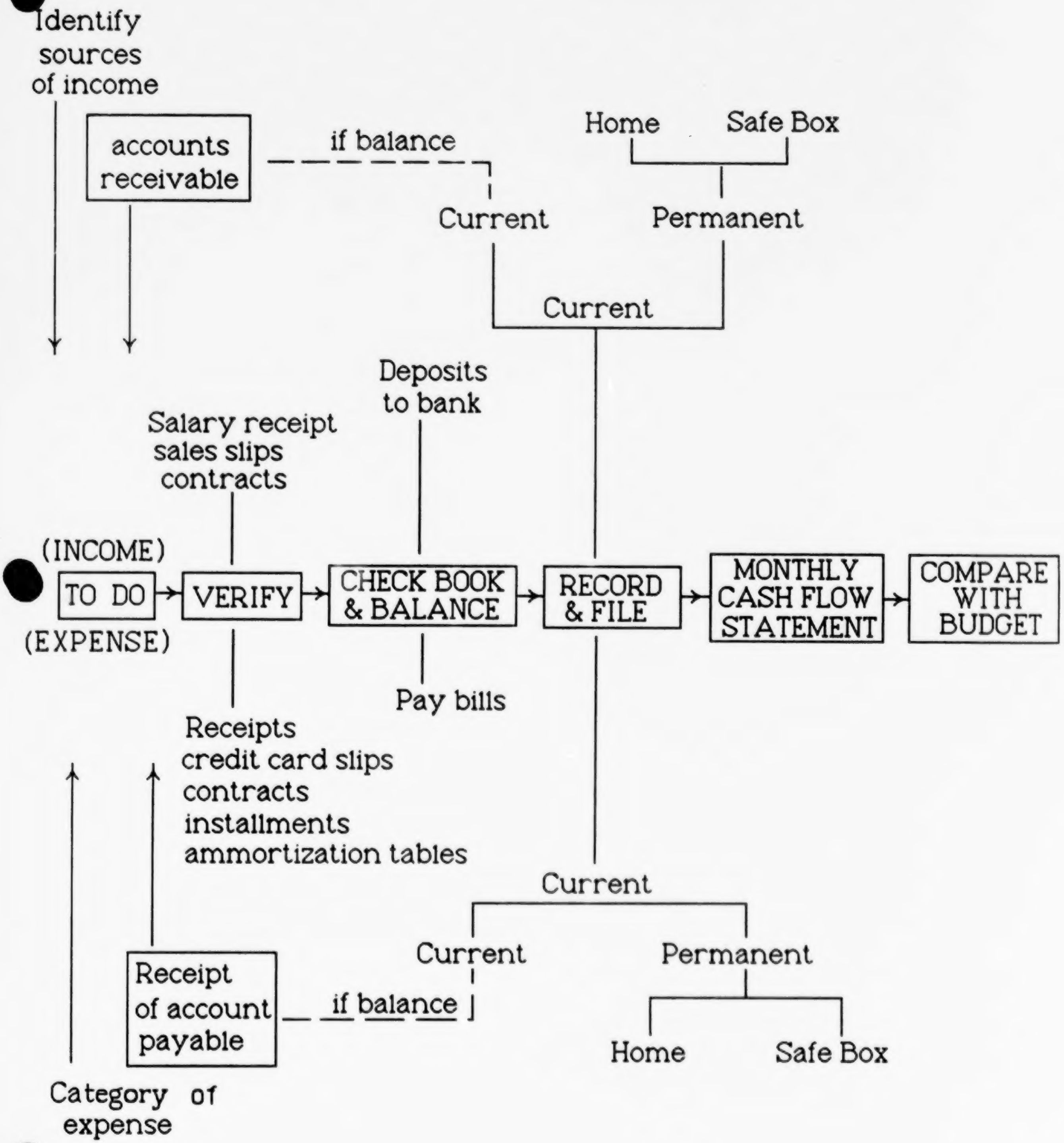

Identify sources of income
accounts receivable
if balance
Home
Safe Box
Current
Permanent
Current
Deposits to bank
Salary receipt sales slips contracts
(INCOME)
TO DO
(EXPENSE)
VERIFY
CHECK BOOK & BALANCE
RECORD & FILE
MONTHLY CASH FLOW STATEMENT
COMPARE WITH BUDGET
Pay bills
Receipts credit card slips contracts installments ammortization tables
Current
Current
Permanent
Receipt of account payable
if balance
Home
Safe Box
Category of expense

CHART OF FILE TITLES
(partial)

Permanent Family Files

Family (red)
- birth certificates
- wills
- education
- employment
- military

Health (yellow)
- immunizations
- medical histories

Financial (orange)
- insurance
- investments
- family cash flows

Property (gold)
- deeds
- inventories
- instructions

Permanent Farm Files

Conservation (brown)
- tiling
- waterways
- erosion control
- reforestation

Crops (green)
- corn
- beans
- hay
- soil tests
- field histories
- government programs

Financial (blue)
- loans
- taxes
- accounts receivable
- investments
- net worth statement

CHART OF RECORDS
FOR FAMILY AND FARM

1. Transactions include	OPERATING EXPENDITURES	CAPITAL PURCHASES	FINANCING
2. Record in the		JOURNAL	
3. Or record in the		GENERAL LEDGER	
4. From which you generate		REPORTS	
5. To evaluate and plan	CASH FLOW STATEMENT	CASH FLOW BUDGET	ENTERPRISE SUMMARY
6. To analyze	NET WORTH STATEMENT	INCOME STATEMENT	CHANGE IN POSITION
7. And facilitate	FARM AND FAMILY TAXES	SELF EMPLOYMENT TAXES	EMPLOYER TAXES